

Agenda Item No:

**9**



Shared Internal Audit Service  
*Hertfordshire in Partnership*

# Shared Internal Audit Service

## Annual Report

**2016/17**

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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 2016/17 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 2016/17, the resilience of the Service was tested via a combination of staff absence and vacancies held over in lieu of a planned service restructure. Whilst this inevitably had an impact on the performance of the Service, our main performance indicator relating to the number of audit days delivered to clients was achieved

With the current financial climate in Local Government forcing clients to consider their investment in assurance work, there is a need for the Service to ensure that it continues to provide its services in the most cost effective manner. This has meant that the Service will undergo a restructure in 2017/18 however the Service will continue 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 2017**

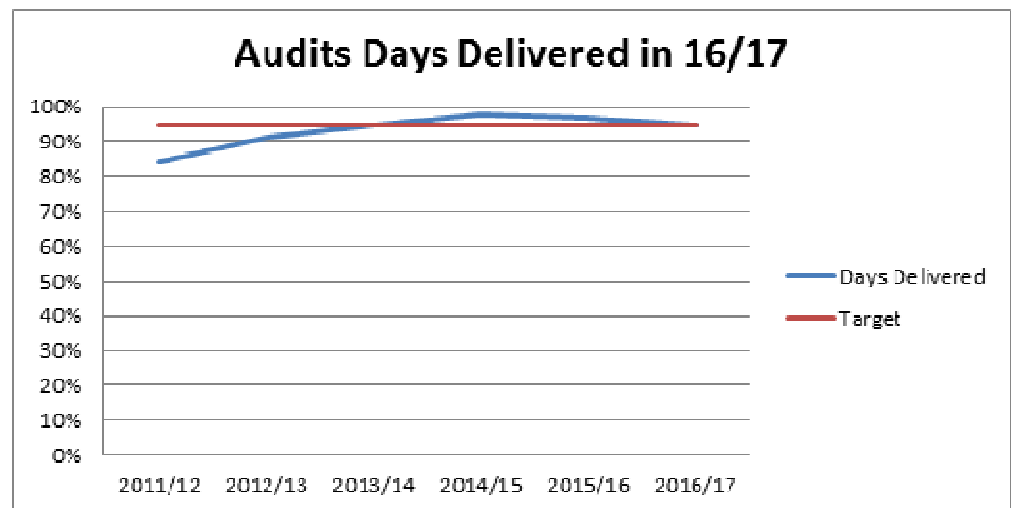


## Levels of Delivery

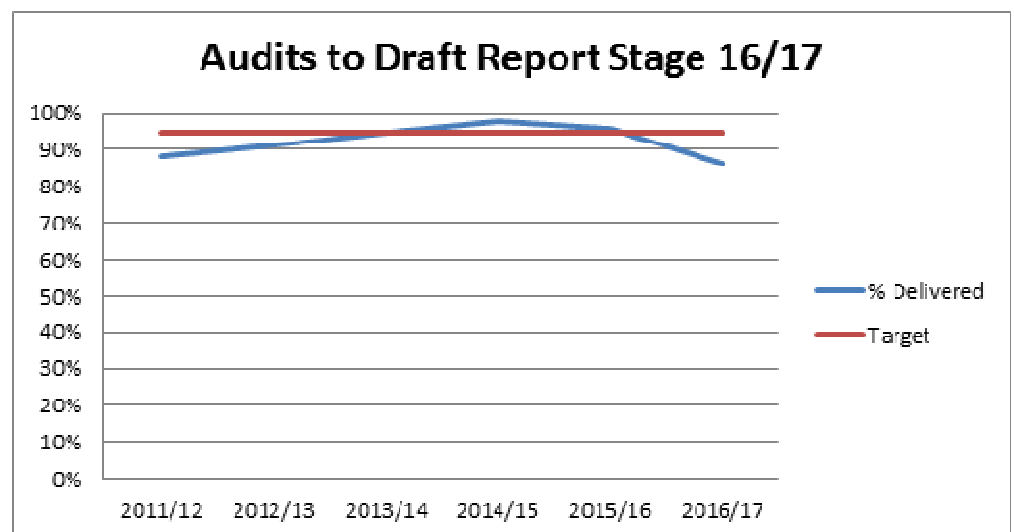
Whilst the Service faced some challenges during the year arising from multiple staff sickness absences and vacancies held over in lieu of a planned service restructure; it was able to meet its target of delivering 95% of days commissioned by clients. This is a testament to the hard work of the SIAS Team.

Despite the challenges referred to above, the Service was also able to deliver 86% of its audit review to draft report stage by the close of the year and through the prioritisation of outstanding work in the final quarter ensured that this did not impact on the integrity of the assurance opinions given to clients.

**Figure 1: Percentage of audits days delivered**



**Figure 2: Percentage of audits to draft stage**



*Good performance despite resilience challenges...*

## 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.

Over the course of 2016/17, our quarterly shared learning papers continued to be 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. The highlight of the last year was a special edition covering the topical issue of income generation. This dovetailed nicely with planned audits at several of our partners and indeed a keynote presentation at the Herts CFO's Conference. Our latest shared learning paper reviewed the high priority recommendations arising from our work across all partners.

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



It is also always a very valuable exercise to turn the mirror on oneself periodically. Our external quality assessment (peer review) of the Devon Audit Partnership as required by professional standards was a perfect opportunity to learn something ourselves, develop some perspective on our structure, working practices and service offerings and showcase some of the things we do well. Our involvement with 'Audit Together', a strategic alliance of similar audit partnerships, our audit delivery partners (BDO) and an array of contacts through bodies such as the Home Counties Chief Internal Auditors Group have been invaluable in sharing experiences and ideas as we examine the road we have travelled and look to where we need to be in response to client need and the ever evolving field of internal audit. Our staff, partners and Audit Committee members continue to provide helpful challenge, which causes us to pause and think about matters big and small, whether about assurance levels, recommendation priorities, professional judgement and intellectual curiosity or about our skills, performance, systems, culture and restructure.

## Developing our Processes

With the SIAS trading model centred on the delivery of billable days by a large team of in house staff, the need to monitor and manage performance is a key requirement of the Service.

Since its inception SIAS has used a proprietary product that has largely met the needs of the Service however as the management of individual performance targets becomes even more important in ensuring the Service delivers against its promises, it became clear that there was a need for a level granularity in staff performance figures that the existing system could not provide.

Working with development staff within the County Council, we have developed a time recording system that provides weekly updates on performance by individual and makes real time allowances for annual leave, sickness absence etc.

The new system is scheduled to go live in 2017/18 and will allow the Service to ensure that performance issues are highlighted and addressed at the earliest stage whilst also empowering and enabling audit staff in taking ownership of their workloads and individual targets.

***Continuing to innovate and improve our internal and external business information.***



## 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 in 2016/17 we have received 96% satisfactory or higher feedback rating from our customers; an improvement on the previous year.

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

- *“Good professional service”*
- *‘A professional piece of work that will be used to further improve our IT Network Security*
- *The content of the report and conclusions were high quality and provide a useful basis for improving the market's service’*
- *‘Excellent service - done to relevant timescales with minimal impact on the service*

***Excellent service - done to relevant timescales with minimal impact on the service***



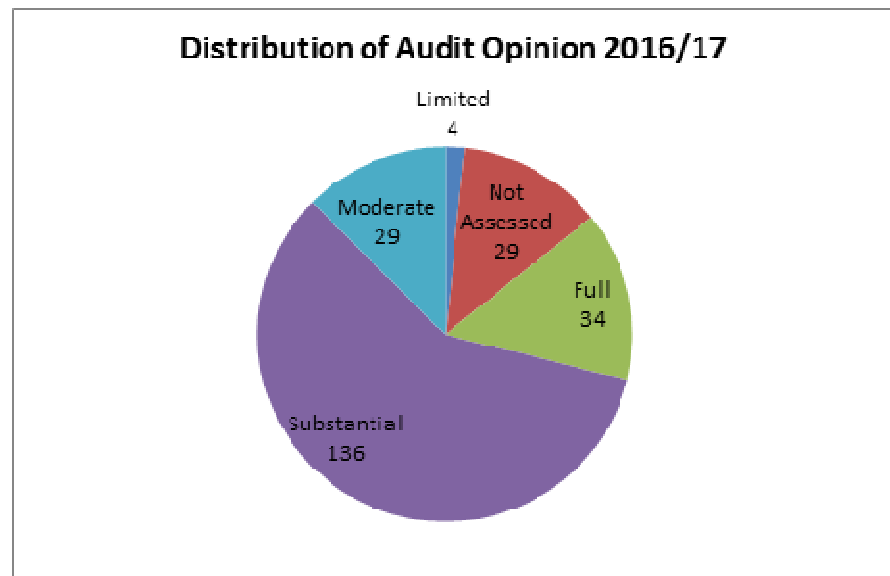
## Performance - Outcomes

SIAS worked on 232 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:

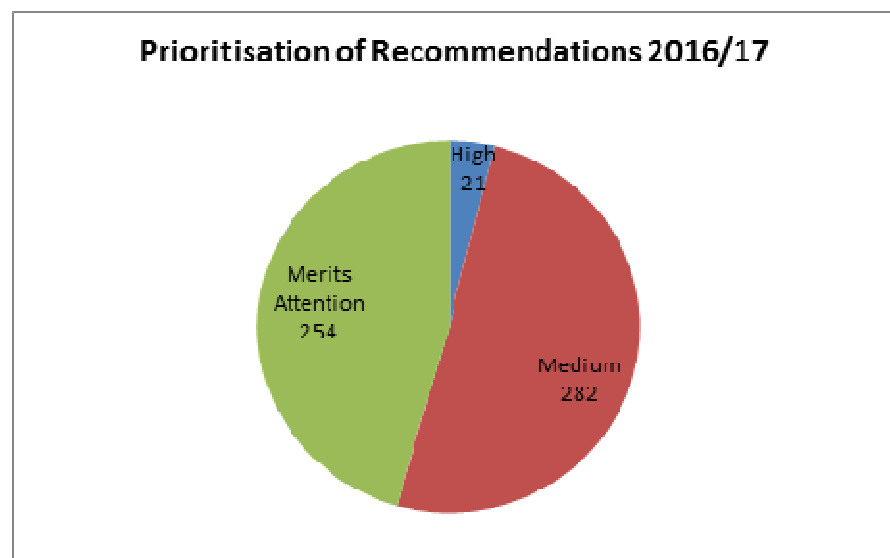
**Figure 3: Distribution of Audit Opinions 2016/17**

*232 assurance and other projects identifying 557 recommendations*



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

**Figure 4: Prioritisation of Recommendations 2016/17**





## 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 2016	Actual as at 31 March 2017	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	97%	95%	The service hit one of its two key performance indicators despite resilience challenges.
Progress against plan: audits issued in draft by 31 March	95%	96%	86%	
Client satisfaction	Satisfactory and above	95%	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 2017.

The partners determined that the service should aim to build a small surplus 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



In 2017/18 the Shared Internal Audit Service will be undergoing a restructure to ensure that it is able to continue to provide its clients with a high quality cost effective service.

With clients having to consider the amount of investment in their internal audit services, the Service must continue to look at ways of delivering the levels of assurance required in the most efficient way, ensuring that draws on client officer time are minimised.

The changing face of service delivery within Local Government also presents the Service with new challenges and a need to provide higher levels of consultancy advice on the control aspect of the commercial ventures that clients are engaging in.

The increased use of data analytics tools is likely to become a key feature in the work of the Service going forward. The use of these tools will allow the Service to facilitate delivery of the widest coverage of process driven areas.

## 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 and Estates)**



**Sajida Bijle, HBC**  
**Corporate Director**



**Owen Mapley, HCC**  
**Director of Resources**



**Norma Atlay, NHDC**  
**Director Finance, Policy &**  
**Governance**



**Ka Ng, WHBC**  
**Executive Director –**  
**Resources, Environment**  
**and Cultural Services**



**Isabel Brittain, EHC**  
**Head of Strategic**  
**Finance & Property**



**Jo Wagstaffe, WBC and**  
**TRDC**  
**Shared Director of Finance**



**Terry Barnett, SIAS**  
**Head of Assurance**

<u>SIAS cost centre: revised budget against outturn 2016/17</u>		
	<u>Budget</u>	<u>Outturn</u>
	<u>£</u>	
Salaries & Salary Related	1,183,381	993,440
Partner / consultancy costs	51,786	189,318
Transport	11,000	7,826
Supplies	22,780	19,563
Office Accommodation cost	17,005	17,005
	<hr/>	<hr/>
	1,285,952	1,227,152
Total expenditure		
Income	<hr/>	<hr/>
	1,292,313	1,214,858
Net (surplus) / deficit	<b>(6,361)</b>	<b>12,294</b>

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.