



# **Shared Internal Audit Service**

## **Annual Report**

2011/12

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# Introduction

The Shared Internal Audit Service came into being on 1 July 2011 and is a partnership formed of six Hertfordshire Authorities:

- East Hertfordshire District Council
- Hertfordshire County Council
- Hertsmere Borough Council
- North Hertfordshire District Council
- Stevenage Borough Council
- Welwyn Hatfield Borough Council.

The partners' vision is to create a core assurance service that 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 SIAS has had a tremendously successful first year of operation.

Equally as exciting, we see real opportunities for delivering additional value for our partners as we shape the future of SIAS.

I am delighted to set out this first SIAS annual report. The report begins by highlighting some of our key areas of success before describing the performance of the partnership during 2011/12; finally the report looks ahead to the development of the partnership for the future so that we fully deliver the partners' vision.

The Shared Internal Audit Service is 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.

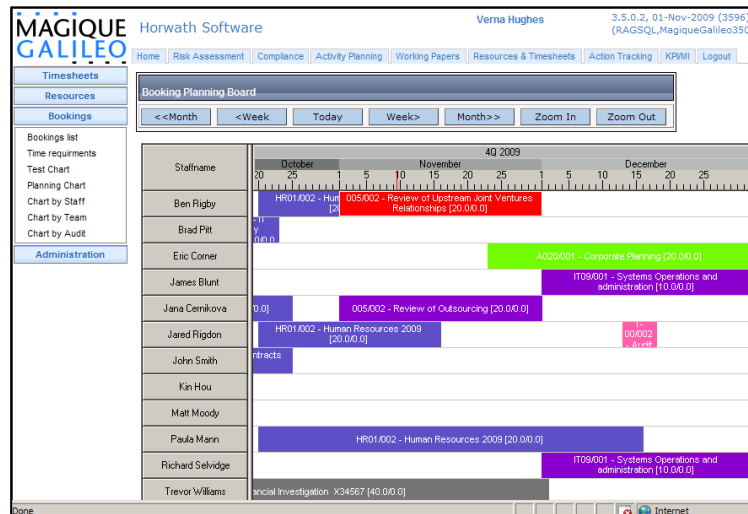


**Head of Assurance for the Shared Internal Audit Service, May 2012**



# A smarter, leaner way of working

We have taken the opportunity to fundamentally review our audit approach, taking the best practices from each authority and we have incorporated leading industry standards. We have successfully implemented and trained all staff to use our innovative risk based LEAN audit methodology.



In 2011-12 we used the Galileo system for time recording and management information. A Galileo project team has been set up to make the integration to full electronic working papers. 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.

Risk Matrix									
[Edit] [Print] [Remove] [Close]									
[Details] [Testing of Co..] [Categorisation:] [Review Points:] [Actions:] [Word Reports:] [Attachments:] [Status] [Audit Trail]									
[Get Risks] [New Risk] [Expand All] [Collapse All] <input checked="" type="checkbox"/> Risk <input checked="" type="checkbox"/> Expected Control <input checked="" type="checkbox"/> Test <input checked="" type="checkbox"/> Action Ref									
<b>Risk: 01 Possible fraudulent payments (Draft)</b> Fraudulent payments could be made if proper controls are not put in place.									
[Del Risk] [New Control] [X]									
Expected Control: <b>01.01 Only accept original invoices (Draft)</b> Control Design: Not Yet Entered									
[Del Control] [New Test]									

## Solid Business Performance

With ever increasing financial pressures facing Local Government, the SIAS business model has contributed efficiency savings in order of £300k for its partner organisations. The SIAS risk focused approach has delivered high quality value added assurance work with less resource.

Commentary on financial performance can be found in the performance sections and our 2012/12 outturn is included in Appendix B.



## Building resilience and a team for future challenges

We have made a significant investment in the development of our staff, which has been recognised through our Investor in People accreditation. Regular technical training has allowed our staff to stay on top of regulatory changes and cutting edge audit practices. Soft skills' training has given our staff the confidence and tools to work in a shared service environment. 89% of our staff are either qualified or studying for a professional qualification.

We have built an in-house provision for specialist audit work in the following fields:

- IT Audit
- Contract/Procurement Audit
- Counter Fraud Services
- CAATs
- Governance
- Risk Management



We are recognised as a trusted business advisor, critical friend and have an extensive resource and knowledge pool to add value to our partners.

## 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 100% satisfactory or higher feedback rating from our customers.



*'Thank you for responding so promptly to this request which was made at short notice.'*

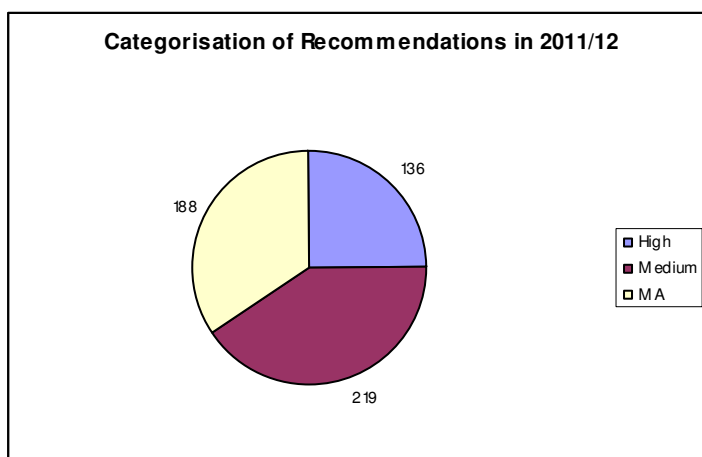
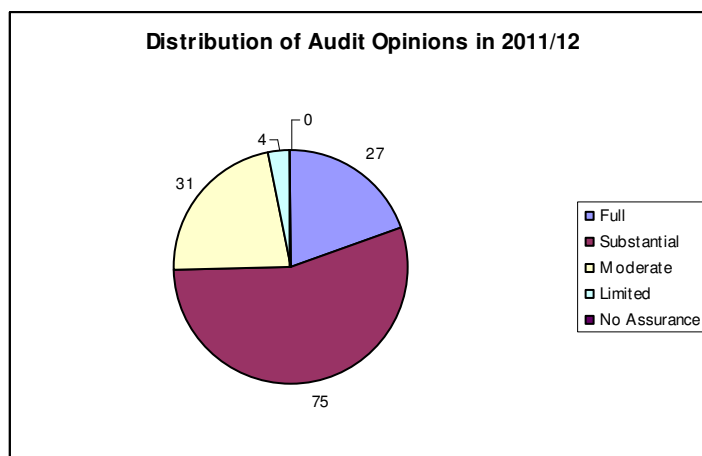
*'You gave us enough notice before the commencement and allowed us time to provide the necessary audit details/examples. Your knowledge in this service area and to the system we use, certainly helped.'*

*'There were no issues with this audit and would suggest this is an excellent example of tailoring a repeat audit appropriately to ensure it was timely, accurate and not onerous.'*

## Performance

### Context

SIAS worked on more than 290 assurance projects during the year giving assurance opinions and recommendations as demonstrated in the charts below:



### 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 2011/12 is provided in Appendix A to this report, and the headlines are summarised in the table:

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Indicator	Target	Actual as at 31 March 2012	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	NA	88%	No target was set for this indicator because of the transitional year.  2928 actual days were delivered by March 31 2012.
Progress against plan: audits issued in draft by 31 March 2012	NA	84%	No target was set for this indicator because of the transitional year.  221 audits were delivered to at least draft stage by March 31 2012.
Client satisfaction	Satisfactory and above	100%	All audits met the minimum target; 10% rated as satisfactory; 19% rated as very good; 71 % rated as excellent.
Financials: income recovered	NA	£430,560	No target was set for this indicator.  The figure represents income from District Councils only for 2011/12. For 2012/13 this will include income from HCC as SIAS adopts a traded approach.

The SIAS Board has identified that it requires further information in order to assess the business performance of the Shared Service such as information about factors influencing capacity levels. The Balanced Scorecard for 2012/13 will reflect this additional information.

### Financial Performance of SIAS

Financial year 2011/12 was a transitional year and SIAS costs were treated as a cost centre in HCC accounts. The high level year-end position is shown in Appendix B. Across the partnership the total ongoing cost saving after initial set up costs were met is around £300,000 per annum.

For 2012/13 SIAS will operate on a trading account basis with HCC being invoiced for its audit days.

### Professional Performance of SIAS

It is extremely important that SIAS can demonstrate it fully meets the anticipated professional standards for internal audit. SIAS must demonstrate that it complies with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (2006).

A self-assessment was therefore carried out by the Head of Assurance to confirm that the service is compliant with the CIPFA Code. This exercise was reviewed by Grant Thornton, External Auditors to four of the organisations which form the SIAS partnership. The conclusion of this review was:

‘SIAS completed a self assessment of their performance against the CIPFA Code of Practice for Internal Audit. Based on this review, we have not identified any major issues. In general, it appears that SIAS are meeting the requirements in place, with the only exceptions being annual reporting / review which had not happened at the time of the review, given that SIAS had not yet reached the end of the annual cycle.’

For 2012, given the significant change in provision and a desire for a level of external scrutiny of the new arrangements, the SIAS Board agreed to adopt a peer review methodology for the annual SIAS review of effectiveness. The Director of Veritau (a well-established local authority internal audit company owned by North Yorkshire County Council and York City Council) was invited to conduct the review and was supported by the Transformation Manager from Hertfordshire County Council. The objectives of the review were:

- To assess the effectiveness of the SIAS Partnership for key stakeholders, in particular whether SIAS is meeting the key business objectives for which it was established in July 2011
- To meet the Code of Practice requirement for an annual review of effectiveness for IA
- To make recommendations to help improve the effectiveness of SIAS / develop the SIAS business where applicable

The main lines of enquiry were to assess the following areas from the original business case for SIAS:

- a) How resilient is the SIAS service
- b) How efficient is the SIAS audit process
- c) How far is SIAS a good place to work, and to
- d) Review the SIAS vision for 2012-2014 and consider whether the building blocks are in place for it to be delivered.

The assessors reviewed an evidence pack submitted by the Head of Assurance and then interviewed various stakeholder groups representing: senior leaders; auditees; employees of SIAS and the SIAS management team.

The assessors' conclusions were:

- a) SIAS has built a good reputation and profile – especially amongst senior client officers



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- b) SIAS has the support of the Board which has recognised the significant effort by SIAS staff to reach the current position
- c) The service is beginning to deliver additional value as a result of the opportunities presented by working together
- d) The original SIAS business case objectives relating to cost reduction and enhanced resilience have been delivered
- e) An increasingly risk based approach is being adopted with reports that are clearly focussed on key issues
- f) The Lean Audit Approach which has been adopted and understood by team is leading to efficiencies
- g) The service is a good example that can be used for other areas looking to share services.

The assessors recommended the following:

- a) Work towards a seamless approach where work is carried out on behalf of SIAS by its partner PWC
- b) Ensure that all stakeholders understand the new SIAS approach
- c) Continue to embed communications at team level and help the team to understand their role in delivering the future vision of the service
- d) Ensure that the service responds to the changing nature of local government, continuing to build the skills it needs for the future
- e) Further improve the way in which IT is used to support the service
- f) Exploit opportunities for sharing learning across partner organisations
- g) Review the performance information used by the service to identify opportunities to report on 'value-added'.

Work is underway to determine steps to be taken to develop these areas, and proposals are to be developed for agreement at the SIAS Board and then inclusion into the SIAS Service Plan.

## 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’.**

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

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

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

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

**Be an exemplar shared service with a ‘return on investment’ for partners – achieving benefits from the shared service for all the partners, demonstrating that it is a viable approach, understanding why that is and being able to creating a convincing case for others to hear**

**Be a 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 2012 and are monitored regularly by the SIAS Management Team. The table below sets out the mission-critical activities:

<b>Priority</b>	<b>Activity</b>
Leading reputation in governance, risk and control	Systematic approach to identifying learning to be established; shared exercises to be carried out  Benchmarking partners across IT, procurement and fraud areas  Shared approach to audit planning
Leading edge of service delivery	Implementation of working papers module of Galileo  Implementation of Shared Service laptop solution for IT

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Priority	Activity
	Trading account  Working with PWC to ensure consistency in approach to delivery of assurance work
Team are ambassadors with the right skills	Team skills development plan  Support for professional training and SIAS trainee  Defining SIAS Values and Behaviours  Knowledge transfer activity with PWC  Focus on increasing levels of employee engagement
Exemplar shared service	Marketing strategy and work with PWC to improve commercial skills

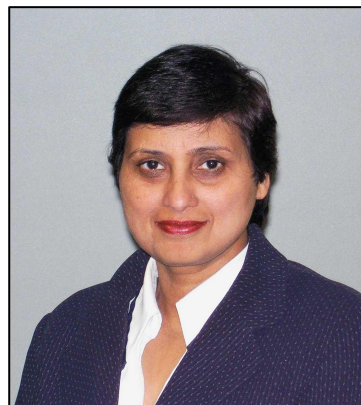
Building on the strong foundations already in place, these activities will take SIAS forward in the year ahead in a way that we believe will be to the benefit of all the partnership stakeholders.

## 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



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



**Bob Jewell, WHBC**  
Director of Finance and Operations



**Mike Parsons, Herts CC**  
Director Resources & Performance



**Helen Maneuf, SIAS**  
Head of Assurance



**Alan Madin, EHDC**  
Director of Internal Services

# Appendix A: SIAS BALANCED SCORECARD AS AT 31 March 2012



## SIAS Rolling Audit Balance Scorecard 31st March 2012

Progress Against Plan		Audit Progress		Level of Assurance		Recommendations		Client Satisfaction		Financials	
<i>Total Plan Days</i>	3324	<i>Planned</i>	3	<i>Full</i>	27	<i>High</i>	136	<i>Excellent</i>	71%	<i>Total Billed Days</i>	1794
<i>Actual Days to Date</i>	2928	<i>Not Yet Allocated</i>	0	<i>Substantial</i>	75	<i>Medium</i>	219	<i>Very Good</i>	19%	<i>HCC Days</i>	1047
<i>Percentage progress*</i>	88%	<i>Audit Brief Issued</i>	0	<i>Moderate</i>	31	<i>Low</i>	188	<i>Satisfactory</i>	10%		
<i>*expresses total actuals against total plan days</i>		<i>Field Work Started</i>	20	<i>Limited</i>	4			<i>Potential for Improvement</i>	0%	<i>Total</i>	2841
		<i>Field Work Completed</i>	10	<i>No Assurance</i>	0			<i>Unsatisfactory</i>	0%		
		<i>Group Auditor Review</i>	20	<i>Not Assessed</i>	156			<i>No score</i>	0%		
		<i>Draft Report Issued</i>	45								
		<i>Response Received</i>	8								
		<i>Final Report Issued</i>	164								
		<i>Report Agreed</i>	1								
		<i>Follow-up complete</i>	3								
		<i>Audit Closed</i>	11								
		<i>Audit Cancelled</i>	39								
		<i>At Least to Draft on March 31st</i>	84%								
<i>Targets</i>		<i>Targets</i>		<i>No Targets</i>		<i>No Targets</i>		<i>Targets</i>		<i>No Targets</i>	
2012/13	100%	2012/13 - To Draft	95%					Min satisfactory and 39/65	100%		

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 2012. Work to complete the 2011/12 activity was undertaken after year-end.

## Appendix B: SIAS COST CENTRE OUTTURN 2011/12

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### SIAS Cost Centre Out-turn 2011/12

	£
Salaries & Salary Related	1,032,212
Partner / consultancy costs	125,663
Non salary employee costs (excluding IAS19)	120,653
Transport	20,137
Supplies	33,249
Office Accommodation cost	<u>11,555</u>
Total expenditure	1,343,469
Less income from Districts, Police and HCC Trading Units	<u>(785,698)</u>
Net expenditure after trading income	<b>557,771</b>

#### **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.
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## Appendix C: DEFINITIONS OF ASSURANCE LEVELS AND PRIORITY OF RECOMMENDATIONS

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<b>Levels of assurance</b>	
<b>Full Assurance</b>	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.
<b>Substantial Assurance</b>	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.
<b>Moderate Assurance</b>	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.
<b>Limited Assurance</b>	There are significant weaknesses in key control areas, which put the system objectives at risk.
<b>No Assurance</b>	Control is weak, leaving the system open to material error or abuse.

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

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