

Committee:	Audit Committee
Meeting Date:	28 January 2016
Lead Councillor/s:	Councillor Michael Bond
Local Councillor/s:	All
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Audit Services Charter and Audit Plan Key Themes 2016/17

Brief summary of report

1. In accordance with the Public Sector Internal Audit Standards (the PSIAS), the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter. This must be periodically reviewed and presented to senior management and the Audit Committee for approval.
2. This report also provides the Committee with the broad themes that will be contained within the planning process for internal audit work throughout 2016/17. The planning process will be reported in detail to the Committee at its meeting on 16 March 2016.

Action recommended

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| <ol style="list-style-type: none"> 3. The Committee is asked to <ol style="list-style-type: none"> (a) approve the internal audit charter for 2016/17; and (b) give their views on the themes set out in the report. |
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Reason for recommendation

4. One of the core functions of the Audit Committee as defined by its terms of reference is to approve and monitor delivery of the internal audit activity of the Council.

5. Audit Services welcome and value the Committee's contribution and engagement in the audit planning process.

Alternative options

6. The Committee could recommend additional / alternative items to be included in the Charter and / or developing themes, and these could be considered by the Head of Audit Services and any changes agreed with the Director of Resource Management (the Committee will be aware that, within the Constitution, responsibility for internal audit has been delegated to the Director of Resource Management (the Responsible Finance Officer) under Section 151 of the Local Government Act 1972).

Who will be affected by this decision?

7. All stakeholders.

Main body of report

The Audit Charter

8. The mandatory nature of the PSIAS must be recognised in an internal audit charter. This is a formal document that defines the purpose, authority and responsibility for the internal audit activity. The Charter establishes internal audit's position within the organisation.
9. The internal audit charter:
 - a) defines the statutory role and definition of internal audit;
 - b) sets out the reporting lines, relationships and independence of internal audit;
 - c) defines the scope of internal audit activities;
 - d) shows internal audit has the right of access to all of the Council's personnel, records, information and assets that it considers necessary to fulfil its responsibilities, including those of partner organisations and third party suppliers where contract terms include internal audit access rights;
 - e) details what is done to ensure a high quality of service is maintained;
 - f) covers the arrangements for appropriate resourcing ; and
 - g) sets out the role of internal audit in any fraud-related work.
10. Final approval of the Charter resides with the Audit Committee. This is done every two years or sooner if there are significant changes to report. The last full review took place on 29 January 2015.
11. There have been minor changes since the Charter was last approved by the Audit Committee. These relate to updated reference to the Accounts and Audit (England) Regulations 2015 (previously 2011) and the definition of 'consultancy' following an internal quality assurance review.

12. Following an annual review by the Head of Audit Services to ensure that it is relevant to the demands and responsibilities of Audit Services, no major changes are required.
13. Consequently the Charter is not being presented to the Audit Committee this year.

Key Themes 2016/17

14. The internal audit profession is in a period of great change. The increasingly dynamic environment in which the County Council operates means it faces risks from an array of sources old and new, including cyber-threats, privacy concerns and collaboration. More than ever, Audit Services has a role to support efforts to mitigate the varied risks faced by the Council.
15. The growing list of risks faced by the Council poses challenges to ensure audit resources are utilised in the most efficient way. The challenge is to adapt quickly and efficiently based on the best information available at the time. The innovative planning process outlined in paragraph 30 sets out how Audit Services is meeting the challenge.
16. As the organisation changes, different audit skill requirements are emerging. For example, there is now a greater emphasis on contract management and commissioning as the Council changes the way it delivers some of its services. At the same time, the impact on the Council from austerity, and resultant budget restrictions, means less scope for internal checks or segregation of duties within the service areas which increases the risk of fraud and error. Changing processes and structures also means that long established reliable systems are likely to need to be revisited in order to provide assurance that controls are still in operation.
17. Management, elected members and the Audit Committee expect internal auditors to be significant contributors in addressing the present financial challenges and to provide assurance on how well risks are being managed within their service areas. In order to achieve this, Audit Services constantly needs to assess its own processes and change the way in which it works accordingly, whilst adhering to the requirements of the PSIAS. It is also important that Audit Services participate in and promote best practice with respect to the audits it has planned to undertake.
18. The work of Audit Services for 2016/17 will complement a programme of assurance work across the Council and will seek to underpin the five corporate priorities:
 - a) Raise educational attainment and skill levels;
 - b) Support the Local Enterprise Partnerships (LEPs) to increase economic growth;
 - c) Maintain roads and develop Suffolk's infrastructure;
 - d) Support those most vulnerable in our communities; and
 - e) Empower local communities.
19. Audit coverage will again be influenced by the major transformational and enabling programmes that together will help the Council meet its budget

challenges. Audit work will seek to provide assurance over the controls and risks within the new ways of delivering services designed through these transformation programmes.

20. In addition to priority activities, there is a wide range of important statutory and 'business as usual' activities that will be delivered.
21. Audits of the main financial systems provide assurance to the Council's External Auditors on the robustness of the key controls within each area. Main financial system audits are:- Payroll, General Ledger, Income systems and procedures (Oracle Receivables), Expenditure Systems and Processes (Oracle Payables), Treasury Management, Capital Accounting and Asset Management, Pension Scheme Administration and Pension Fund Investment. The basis for determining the level of coverage required includes any system changes and / or any issues (e.g. control failures) that have arisen since the last audit, and the results of previous audit work. Where work on the main financial systems is deemed necessary, the scope will be discussed with the External Auditors prior to the commencement of each piece of work.
22. Fraud and corruption risks contribute to the overall formation of audit coverage. Resources will be allocated during 2016/17 to deliver proactive anti-fraud and corruption work and to manage the National Fraud Initiative. In addition, there is likely to be a need to allocate resources to undertake irregularity investigations.
23. Audit Services will utilise audit interrogation software to support general audit work. This enables interrogation and examination of tabula data for a large number of records.
24. Central, Regional and European bodies and their related funding agencies continue to require assurance that spending has been made in accordance with funding agreements. Many grants now require audit sign-off not only for the Council's spend but also that of partners. Audit Services are increasingly being required to develop assurance frameworks and provide opinions on funding prior to the submission of claims.

Other Assurance Providers

25. The focus and responsibility on professional leads and other assurance providers to ensure standards are maintained will need to be monitored through regular communication.
26. Other assurance providers will contribute to the Head of Audit Services' assurance opinion, as demonstrated through the "Three Lines of Defence" model. Through close liaison, self assessment and analysis of existing data, opinions on the operation of certain services can be obtained through the work of others. The inclusion of this information will enable a wider opinion to be formed on all aspects of the Council's operation.

Income from Audit Work

27. External income streams enable audit services to maximise its resources and to develop and maintain a wide skills base and, as a result, provide a better service to the Council. Additional income also reduces the cost to the Council of maintaining the Audit function.

28. Audit Services currently receives income through its audit work on pensions, treasury management and European grant claims. Other contracted work will continue to be tendered for, where appropriate.

Follow Up Audits

29. Audit Services will follow up all agreed audit actions and will report progress to the Audit Committee throughout the year.

The Audit Planning Process

30. There needs to be a flexible approach to ensuring audit work meets the needs of the County Council in this ever changing risk and control environment. Having a set annual plan of work, or even quarterly plans, has previously proved to be restrictive on the Internal Audit Service. As such, an innovative, more fluid approach to planning was used for 2015/16. This involved utilising an in-house developed risk-based 'assurance & planning' tool to determine each 'next' piece of audit work. This approach was agreed in March 2015, on a trial basis, by the Audit Committee. It is proposed that this process continues for 2016/17. This is subject to an external quality assessment of Audit services which will be carried out in February by CIPFA. Further information on the audit planning process will be presented to the Audit Committee in March 2016.
31. Audit Management seek to attend Directorate DMTs at regular intervals to discuss assurance, audit outcomes, management action and agree on audit work for the period ahead. Outcomes from these meetings are reported back to, and agreed with, the Director of Resource Management. Audit liaison meetings with the Chairman of the Audit Committee will be used to keep members up-to-date on the work of Audit Services, as well as at meetings of the Audit Committee itself.

SOURCES OF FURTHER INFORMATION

- a) Public Sector Internal Audit Standards.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207064/public_sector_internal_audit_standards_december2012.pdf

