

Committee:	Audit Committee
Meeting Date:	16 March 2016
Lead Councillor/s:	Councillor Michael Bond
Local Councillor/s:	All
Director:	Geoff Dobson, Director of Resource Management Tel 01473 264347 Email: geoff.dobson@suffolk.gov.uk
Assistant Director or Head of Service:	Tim Ryder, Assistant Director (Scrutiny and Monitoring) Tel: 01473 264246 e-mail: tim.ryder@suffolk.gov.uk
Author:	Peter Frost, Head of Audit Services, Audit Services Tel: 01473 264247 e-mail: peter.frost@suffolk.gov.uk

Audit Services – 2016/17 Internal Audit Plan

Brief summary of report

1. Audit Services has a key role in assisting the Council and the Audit Committee in discharging its governance responsibilities. It aims to deliver a high quality internal audit service, providing valued independent assurance on systems, and helping to manage risk during and after major organisational development.
2. In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Audit Services “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”.
3. Internal audit work for 2016/17 will seek to underpin the Council’s corporate priorities and takes into account corporate governance and risk management issues and the Council’s assurance framework (the Committee confirmed the key themes for the internal audit plan at its meeting in January).
4. 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 proved to be restrictive on the Service. As such, the innovative, more fluid approach to planning which was used for 2015/16 will again be used for 2016/17. This involves utilising a risk-based ‘assurance & planning’ tool which has been developed by Audit Services to determine each ‘next’ piece of audit work. The S151 Officer and Chairman of the Audit Committee will be kept fully informed of the audit work planned.

5. The intended planning process means it is not possible to stipulate how the full allocation of resources will be utilised. It does, however, enable greater efficiencies and productivity and ensures each piece of work to be carried out is always the right one to be done. This is important as the Committee should be aware that the level of available audit resources will always result in restrictions on the level of assurance that can be given.
6. This planning process takes into account the requirement to produce an annual internal audit opinion and the assurance framework and, as such, meets the requirements of the PSIAS.

Action recommended

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| <ol style="list-style-type: none">7. The Committee is asked to approve the Council's 2016/17 Internal Audit planning approach. |
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Reason for recommendation

8. The Audit Committee has a clear role in relation to oversight of the Council's internal audit function.
9. The Audit Committee should seek to make best use of the internal audit resource within the assurance framework. In particular, it should seek confirmation from internal audit that the work undertaken takes into account the requirement to produce an annual internal audit opinion that can be used to inform the Annual Governance Statement (AGS).

Alternative options

10. The Committee could recommend a more traditional planning process is deployed.
11. The Committee is reminded 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?

12. All recipients of Council services.

Main body of report

Background

13. The Accounts and Audit Regulations 2015 require that the Council maintains an adequate and effective Internal Audit: it "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
14. The CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations states that audit planning must be comprehensive

and consider the whole control environment, so that the Head of Internal Audit's opinion is based on a picture of the whole organisation. The audit work should address key risk areas and draw attention to significant concerns and what needs to be done.

15. In accordance with the Public Sector Internal Audit Standards (PSIAS), the internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the Audit Committee must be considered in this process.
16. The planning process used by Audit Services links to the internal audit charter which was presented to, and approved by, the Audit Committee in January 2016. The charter is complemented by an audit strategy which is a high level statement of how internal audit will be delivered and developed within the Council.

Resources

17. It is inevitable that demand for audit resources will exceed the number of available days. The risk based planning approach used identifies and matches audit work to the available audit resources. If there is an imbalance between identified priority work and the amount of resource available, the S151 Officer will be informed of proposed solutions to deliver any shortfall in work or resources.
18. For 2016/17, Audit Services will be resourced as follows (2015/16 figures in brackets):

	FTE's	
Head of Audit Services	1	(1)
Principal Auditor	1	(1)
Senior Auditor	1.6	(1.3)
Lead Auditor	2.8 *	(3) #
Auditors	<u>1.1</u>	<u>(2.4)</u>
	<u>7.5</u>	<u>(8.7)</u>

* The budget currently allows for a vacancy of 1 fte at Lead Auditor level which will be recruited to as soon as possible.

Includes 0.7 ftes seconded from Finance & Business Development

19. The total audit resource for input to the Council, including the vacant post, which will be filled, is **1,398 audit days** (1,514 days in 2015/16). This excludes an allowance for chargeable work of 60 days (100 days in 2015/16).

Analysis of Auditor Days

	2016/17	2015/16	Comments
Total Gross Days	1,965	2,203	
Overheads	281	356	This time is for bank holidays, annual leave, special leave, and contingency for sickness absence (the difference is predominately due to the number of bank holiday days in each year).
Non Chargeable Days	226 (13%)	233 (13%)	This time is for non-audit related activity, including administration time, the wider role of the Head of Audit Services, training, audit development, staff appraisals, 1:1's and directorate work.
Total Chargeable Days	1,458 (87%)	1,614 (87%)	This is the number of days that contribute directly to internal audit activity.
Income Earning (non SCC)	60	100	This covers an allowance for auditing European grants / other grants and the Pensions Fund.
Chargeable days – SCC assignment based	1,398	1,514	This is the number of days available for delivering the internal audit service to the Council.
Full-time equivalent audit staff	7.53	8.7	
Productivity	193.6	185.5	Total chargeable days (including income earning) per full time equivalent audit staff

20. The total chargeable audit days (SCC assignment based) for 2016/17 will be split as follows:-

Audit Type	Days	%	Description
Operational Audit	802	58%	Detailed audit work carried out to evaluate the Council's effectiveness, efficiency and economy of operations under management's control
Advice and Consultancy	48	3%	Advisory and related client service activities intended to add value and improve governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include training; advice on new design and implementation control
Assurance	250	18%	Assurance audit work seeks to show the control areas in generic form against key governance, risk, statutory and service areas that have been identified; all assessed against the three lines of defence model which the Council uses to define its overall governance arrangements.
Fraud	213	15%	Irregularity Investigations and proactive fraud work.
Management Activity	85	6%	Management input into chargeable audit work which includes planning and reporting to the Audit Committee.
Total	1,398		

Planning Process

21. The scope of Audit Services allows for unrestricted coverage of the Council's activities and unrestricted access to all of the Council's personnel, records, information and assets that it considers necessary to fulfil its responsibilities.
22. Due to the ever changing risk and control environment, the Audit Committee agreed, in March 2015, that having a set annual plan of work, or even quarterly plans, was proving to be restrictive on the internal audit service. Therefore, it was agreed that, on a trial basis, a risk-based 'assurance & planning' tool, designed by Audit Services could be used to generate internal audit work on a rolling basis.

23. This approach to planning is innovative, and has the benefit of enabling greater efficiencies and productivity and ensures each selected piece of work to be carried out is always the right one to be done.
24. Under the PSIAS, Internal Audit is required to have an independent External Quality Assessment (EQA) every five years. This is designed to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards and should be carried out by a suitably qualified practitioner. Suffolk County Council commissioned an assessment to be carried out by CIPFA in February 2016. Coverage included a review of the planning process in operation. The provisional results report that the planning process complies with the PSIAS. As such, it is proposed that the same planning process is used for 2016/17. This will provide sufficient experience and data to ascertain the success of the planning process deployed.
25. The full results of the EQA will be reported to the Committee in May 2016 as part of the Internal Audit Annual Report.
26. Audit work generated from the 'assurance & planning' tool is done on the basis of:
 - a) a risk assessment carried out within Audit Services;
 - b) data obtained from risk registers;
 - c) the Council's priorities (to ensure that audit work is attuned to the overall organisational objectives and required outcomes);
 - d) the skills, knowledge and experience of audit staff;
 - e) detailed discussions held with key officers representing all areas of the Council (this is critical to ensuring the audit work is aligned to the management of the key risks in the Council, and focussed on the key control processes that support the mitigation of those risks);
 - f) Information taken from other assurance processes within, and external to, the Council (examples of external provision are value for money work undertaken by the National Audit Office; Care Quality Commission inspections; Ofsted inspections; PCI Security Standards Council inspection; BACS Approved Bureau Scheme triennial inspection).
27. The following factors are taken into account when assessing and selecting the audit work to be undertaken:
 - a) materiality – in monetary terms, the relative significance or importance of a particular system or process to the County Council;
 - b) corporate importance – the extent to which the County Council depends on the correct running of the system, whether for legal or regulatory requirements or to meet corporate priorities;
 - c) vulnerability – the extent to which the system is liable to breakdown, corruption, loss, error etc.; and
 - d) organisational concerns – the assessment of the risk to the organisation and the focussing of resources in response to that risk.

28. This planning process means it is not possible to stipulate how the full allocation of resources will be utilised at the outset. However, Appendix A provides the Audit Committee with information on the audits which will definitely be carried out during 2016/17 and which are currently featuring as 'higher priority' pieces of work on the 'assurance and planning' tool (albeit not necessarily to be undertaken).
29. The S151 Officer and Chairman of the Audit Committee will be kept fully informed of the audit work planned throughout the year.

Fraud

30. Audit Services play a vital preventative role in ensuring that systems and procedures are in place to proactively prevent and detect fraud and corruption. Audit Services will risk assess all cases of suspected irregularity before deciding on the course of action to take, and will undertake some proactive fraud assignments.
31. Audit Services will also lead on, and deal with, the collection of data for / output from the 2016/17 National Fraud Initiative exercise (including enquiries from other public sector bodies). Audit Services will liaise with management to recommend changes in procedures to prevent further losses to the County Council.

Consulting & Advice Engagements

32. Where appropriate, audit resources will also be utilised in a governance role in assisting / advising on the control frameworks for corporate programmes and new business processes. Involvement at the development stage will enable Audit Services to provide an informed opinion on the adequacy of the controls designed as assurance to the various project boards prior to the processes being signed off for live implementation.

Transformation Programmes

33. Audit coverage will be influenced by the major transformational and enabling programmes that together will help the Council meet its budget challenges.
34. Whilst there may be no specific audits carried out on these programmes, Audit Services will monitor programme delivery and provide advice as necessary. Each programme will be taken into account when scoping and undertaking all 2016/17 audits.

Follow-ups

35. To ensure agreed actions from audit work carried out are being implemented by the officers responsible, follow-up audit work will be carried out on all actions agreed as a result of internal audit work undertaken.

What is not being done?

36. All potential pieces of audit work are risk assessed and the resources available to Audit Services means that not every piece of work can be carried out. Whilst the Head of Audit Services has made a decision on

particular areas under the County Council's responsibility that will not be audited, it would not be prudent to highlight in this paper what those areas are.

37. Over the last few years, Audit Services has provided First Level Controller assurance that European grant returns are accurate (both on behalf of the Council and other external bodies). This has been income earning work. However, as these audits do not contribute to the overall year-end opinion, they will not be carried out in the future. This decision will mean that each relevant grant administrator will need to factor into the grant costs the additional cost of externally provided audit.

Reporting to the Audit Committee

38. In addition to the year-end report (reported to the Audit Committee in May), there will be progress reports during the year. These will provide Committee members with earlier information about internal audit work outcomes and will also inform them of the planning intentions.
39. Any significant issues that may jeopardise the delivery of audit work will be identified and addressed and reported to the Audit Committee.
40. The Committee should note that assurance cannot be absolute.

Sources of Further Information

- a) Audit Plan Key Themes 2016/17 – Report to Audit Committee 28 January 2016
- b) Public Sector Internal Audit Standards
[PSIAS](#)
- c) Accounts and Audit Regulations 2015
[The Accounts and Audit Regulations 2015](#)
- d) CIPFA - Role of the Head of Internal Audit
[CIPFA Role of the Head of Internal Audit](#)

Operational

Main Financial Systems			
The following main financial system audit will be carried out during 2016-17.			
Audit	Reason for Audit	Outline Scope	Priority
Treasury Management	Main Financial System	To provide assurance that the Treasury Management Strategy is in line with current best practice; that the governance framework is sound; that treasury management activities are monitored and the outturn subject to scrutiny.	High - RED
Other Financial Systems			
Traditionally Audit Services have undertaken full coverage of the key financial systems below. This coverage is listed in the outline scope. Audit Services will be reviewing this coverage in consultation with the Council's External Auditor and the Chief Accountant (Financial Control) / Chief Accountant (Strategy & Accounts) in year to ensure that audit coverage, if any, is relevant and focused correctly.			
Audit	Reason for Audit	Outline Scope	Priority
Capital Accounting	Main Financial System	To provide assurance that the Council is correctly and accurately accounting for its assets.	Medium - AMBER

Payroll	Main Financial System	To provide assurance that only bona fide, authorised and accurate payments are made in a timely manner; to ensure that all payroll transactions are accurately reflected in the accounting system; to ensure correct classification on payments being made to individuals to confirm the Council is compliant with guidance regarding the employment status of workers.	Medium - AMBER
General Ledger	Main Financial System	To provide assurance that all financial transactions of the organisation are recorded, including ensuring their completeness and integrity with the aim of providing the data from which management accounts, final accounts and statutory returns can be prepared.	Medium - AMBER
Expenditure Systems (Oracle Payables)	Main Financial System	To provide assurance that creditor payments are valid, authorised, accurate and timely and in respect of goods and services ordered and received by the organisation (including transactions through P2P).	Medium - AMBER
Income Systems (Oracle Receivables)	Main Financial System	To provide assurance that income generating activities are identified and accurately invoiced; that all invoices are paid and the income is accounted for and reflected in the Authority's accounts; the extent of debt is minimised and overdue accounts are promptly followed up.	Medium - AMBER

Other Commitments			
Whilst they may not rank as high as other pieces of audit work, the following audits are committed pieces of work based on agreements in place.			
Audit	Reason for Audit	Outline Scope	Priority
Mental Health Pooled Fund	Annual audit of the Section 75 agreement	To provide assurance to Suffolk County Council and the Clinical Commissioning Groups that the Pooled Fund is being managed effectively.	High - RED
Grants	Grant Certification	There is a requirement for the Head of Audit Services to certify some grant returns. This will only be done once enough audit work has been undertaken to ensure compliance with grant terms and conditions. Examples include Troubled Families and funding from the Department of Transport for various transport & highways related schemes.	High - RED
HMRC – Use of Consultants, Contractors & Interims	Main Financial System	Review to ensure adherence to guidance issued by the Council to ensure compliance with HMRC guidelines on the use of consultants, contractors and interim appointments.	Medium - AMBER

Other Audit Coverage

The following audits are currently ranked as the highest priority pieces of work. The planning process used by Audit Services means that each next piece of audit work is allocated, after risk assessment, based on priority and the skills, knowledge and experience of available resources. As such, there is a possibility that not all of the audits listed below will be completed.

Audit	Reason for Audit	Outline Scope	Priority
Direct Payments	Key governance issue	Review the financial management and governance implications in place over the allocation of direct payments.	High - RED
Revaluation of Highways assets	Accounting requirements	Assurance that road infrastructure valuations for 16-17 accounts are accurate.	High - RED
Savings Targets – Transformation Programmes	Corporate Priority	Sample of transformation programmes to assess achievement of outcomes & savings.	High - RED
Quality of Care & Care Homes	Corporate Priority	Residential care, contract management and arrangements for the failure of a major provider or loss of capacity.	High - RED
Ethics – Declaration of Interests, Gifts and Hospitality Systems	Key governance issue	To review compliance with Policy over the declaration of interests, gifts and hospitality.	High - RED
Procurement of Contracts	Procurement	To ensure that all contracts being entered into by the Council comply with the Council's Procurement Rules.	High - RED

Implementation of Care Act	Change in legislation	To ensure changes required as a result of the Dilnot Commission and Care Act 2014 have been made and that longer term projects and programmes are adequately managed.	High - RED
Highways Contract – Performance Management	Contract Management	To review the effectiveness of contract managing the highways contract.	High - RED
Migrant crisis	Statutory duty	Unaccompanied asylum seeking children – impact re school places, children’s residential placements and foster care (Councils are responsible for the costs associated with child asylum seekers until they are 25).	High - RED
Integrated Commissioning Arrangements	Key governance issue	Pooling capabilities and purchasing power - governance, financial arrangements, monitoring reporting and dispute resolution.	High - RED
Data Protection Act	Statutory duty	Compliances with changes to data protection legislation.	High - RED
Records Management	Information Management	A review of records management as a result of the Goddard Enquiry.	High - RED
Tackling Extremism	Statutory duty	To ensure the Council is complying with its duty to take action in preventing people from being drawn into terrorism.	High - RED
Cyber Security	Key governance issue	To examine the systems and controls in place to prevent cyber-attacks (e.g. web security; firewall security; incident management).	High - RED

Adoption & Fostering	Statutory duty	To evaluate the duties of the County Council under the Children and Families Act 2014	High - RED
Special Educational Needs	Statutory duty	Compliance with special educational needs and disabilities (SEND) reforms.	High - RED
<p>Follow-ups</p> <p>Whilst it is management's responsibility to manage the risks associated in the areas under their authority, Audit Services will monitor progress with the implementation of all agreed actions.</p>			

Consultancy & Advice

Representation on working groups, as deemed appropriate, to advise on risk and control.

Programme	Reason for Audit involvement	Outline Scope	Priority
Contract Management Board	Advice & Assurance	To oversee major programmes of work including early market engagement, procurement, and contract management.	High - RED
Information Governance Board	Advice & Assurance	To promote, maintain and review information risk management policy for the Council	High - RED
Highways Transformation Programme	Advice & Assurance	Audit support and advice on contract and programme management, finance and asset management.	High - RED
Next Generation Computing	Advice & Assurance	To provide a forum for discussion, prioritisation and approval of major IT change proposals and to ensure appropriate benefits realisation.	Medium - AMBER
Engagement & Communications	Advice & Assurance	To provide a forum for discussion between service users, strategic commissioners, technologists and communications professionals.	Medium - AMBER

Assurance

As part of audit coverage, work is being undertaken to identify where assurance can be gained on the operation of controls within the County Council in a more generic form. This is carried out by senior audit staff who assurance map key, risk-assessed, governance areas.

Assurance is provided through the “three lines of defence” model:

1. First line - assurances from management that designed controls are being implemented on a day-to-day basis;
2. Second line - assurances from the back-office functions;
3. Third line - assurance from the internal audit function, and third parties.

Key controls are identified and, where assurance can be obtained that confirms effective systems are in place, this helps to form the opinion on the area under examination. In addition, gaps are identified where management action is required, in-depth audit work is needed or external resources engaged to gain further assurance.

Another benefit of assurance mapping is that it can help the Council identify duplicated effort which might occur when different elements are working in siloes.

The following assurance areas are planned to be carried out during 2016-17, following risk assessment:-

1. Corporate Governance
2. Care Provision
3. Performance / Data Quality
4. ICT
5. Education
6. Highways
7. Business Continuity & Emergency Planning

Fraud

Audit	Reason for Work	Outline Scope	Priority
Irregularity Investigations	In accordance with County Council fraud-related policies and procedures	Reactive work where suspected irregularity has been detected.	High - RED
National Fraud Initiative	Statutory	Submission and analysis of matches for the 16/17 NFI exercise.	High -RED
Anti-Fraud & Corruption – Proactive Work	Identified as part of Risk Based Internal Audit planning process	Proactive counter-fraud work that includes targeted testing of processes with inherent risk of fraud.	Medium - AMBER
National Anti-fraud Network (NAFN)	Compliance	Reactive counter-fraud work on NAFN intelligence.	High -RED

Management Activity to Support the Audit Opinion

Activity	Reason	Outline Scope	Priority
Audit Committee / Member and CFO Reporting	Management activity to support the audit opinion	This allocation covers Member reporting procedures, mainly to the Audit Committee, plan formulation and monitoring, and regular reporting to, and meeting with, the Head of Strategic Finance and the Monitoring Officer.	High - RED
Provision of Internal Control / General Advice	To support an effective control environment	To allow auditors to facilitate the provision of risk and control advice which is regularly requested by officers within the authority, including maintained school based staff.	High - RED
Review of the Effectiveness of Internal Audit	Statutory Requirement to support the AGS	To review / ensure compliance with the Accounts and Audit Regulations 2015 / Public Sector Internal Audit Standards (PSIAS).	High - RED
External Working Groups	Activity to support the audit opinion	Attendance / work in relation to the Counties Chief Auditor Network (CCAN), Home Counties Chief Internal Auditor Group (HCCIAG), London Audit Group (LAG), and the Suffolk Working Audit Partnership (SWAPs).	High - RED
External Audit Liaison	Management activity to support the audit opinion	To ensure that a “managed audit” approach is followed in relation to the provision of internal and external audit services.	High - RED

Management Activity to Support the Audit Opinion (continued)

Audit	Reason for Audit	Outline Scope	Priority
Quality Assurance & Improvement Programme	Conformance with PSIAS	To undertake a series of internal audits to ensure compliance with PSIAS.	High - RED

Chargeable Audit Work

Audit	Reason for Audit	Outline Scope	Priority
Pension Scheme Administration	Main Financial System	To provide assurance that the pension scheme is operated in accordance with prevailing legislation and in an appropriate manner so as to protect stakeholders' interests.	High - RED
Pension Fund Investment Management	Main Financial System	Compliance review of the Council's Pension Fund Governance and Investment Strategy arrangements.	High - RED
Fire Pensions Scheme Administration	Main Financial System	To provide assurance that the pension scheme is operated in accordance with prevailing legislation and in an appropriate manner so as to protect stakeholders' interests.	High - RED