

Committee:	Audit Committee
Meeting Date:	18 May 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 Email: tim.ryder@suffolk.gov.uk
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Audit Services - Annual Report 2015/16

Brief summary of report

1. This report:
 - a) advises the Committee of the work undertaken by Audit Services in 2015/16, and the conclusions reached; and
 - b) reviews the effectiveness of the system of internal audit.
2. The work undertaken by Audit Services in 2015/16 contributes to the Head of Audit Services' overall opinion on the systems of control for inclusion within the 2015/16 Annual Governance Statement.
3. The Accounts and Audit Regulations 2015 require the Council, each year, to "conduct a review of the effectiveness of the system of internal control."
4. Within the County Council, the S151 Officer (Director of Resource Management) is responsible for the requirements of the Accounts and Audit Regulations 2015.
5. The findings of the effectiveness review must be considered by a committee of the body as a whole, as part of the consideration of the system of internal control. The purpose of the review is to ensure that the opinion in the annual report on internal audit work may be relied upon as a key source of evidence in the Annual Governance Statement.
6. The 'Internal Audit Annual Report', including the overall opinion on the systems of control, a summary of the work carried out and review of effectiveness is included for the Committee.

Action recommended

7. The Committee is asked to:
- a) consider and support the recommendation of the Director of Resource Management that the Council's internal audit arrangements are effective;
 - b) confirm that the opinion of the Head of Audit Services, in his Annual Report, can be relied upon as a key source of evidence in the Annual Governance Statement; and
 - c) confirm, from the work undertaken by Audit Services, as set out in the Internal Audit Annual Report for 2015/16, that it takes assurance in the operation of internal controls.

Reason for recommendation

8. This action is within the terms of reference of the Committee which includes approving and monitoring the effectiveness and delivery of the internal audit activity of the Council, monitoring the response to audit reviews and investigations, and the implementation of agreed actions.

Alternative options

9. The Committee could come to a different judgement to that of the Director of Resource Management and / or may request further information before agreeing the recommendations.

Who will be affected by this decision?

10. All stakeholders

Main body of report

11. The Accounts and Audit Regulations 2015 require that:
- “A relevant authority must ensure that it has a sound system of internal control which:
- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - (b) ensures that the financial and operational management of the authority is effective; and
 - (c) includes effective arrangements for the management of risk.”
12. In addition, the Regulations require:
- “A relevant authority 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.”
13. The Regulations require a Committee of the relevant authority, each financial year, to “conduct a review of the effectiveness of the system of internal control.”

Internal Audit Annual Report / Head of Audit Opinion

14. Audit Services' Internal Audit Annual Report for 2015/16 is shown as Appendix 1.
15. The report summarises the results of internal audit work carried out by Audit Services during 2015/16 and, as required by the Accounts and Audit Regulations 2015, gives an overall opinion on the Authority's control environment. It also covers the effectiveness of the internal audit function itself.
16. The overall opinion of the Head of Audit Services for 2015/16 is:
Based on the findings of the managed audit and governance reviews carried out throughout 2015/16, it is the opinion of the Head of Audit Services that the Authority's control environment provides assurance that the significant risks facing the Authority are addressed and financial administrative systems are effective.
17. With regards to effectiveness, the Committee can take assurance that there is an effective internal audit function. Compliance with the Public Sector Internal Audit Standards, Accounts and Audit Regulations and CIPFA guidance, together with continued accreditation to the Quality Assurance Standard, the results of customer satisfaction surveys, and benchmarking outcomes show high levels of effectiveness are being achieved.

Sources of Further Information

- a) Account and Audit Regulations 2015
The Accounts & Audit Regulations 2015
- b) Audit Committees – Practical Guidance for Local Authorities and Police (2013 edition) – CIPFA Publication
- c) Public Sector Internal Audit Standards.
- d) Audit Committee – 17 March 2015 – Audit Services – Internal Audit Plan 2015/16.
- e) Audit Committee – 12 November 2015 – Audit Services Progress Report 2015/16.
- f) Audit Committee – 16 March 2016 – Audit Services Progress Report 2015/16.
- g) Audit Committee – 18 May 2016 – Audit Services Progress Report 2015/16.
- h) Audit Committee – 28 January 2016 – Anti Fraud & Corruption.



APPENDIX 1

**Internal Audit Annual Report
2015/16**

***“Enhancing and protecting organisational value by
providing risk-based and objective assurance, advice and
insight”***

Internal Audit Annual Report

2015/16

“Enhancing and protecting organisational value by providing risk-based and objective assurance, advice and insight”

1. This report summarises the results of internal audit work carried out by Audit Services during 2015/16 and, as required by the Accounts and Audit Regulations 2015, gives an overall opinion on the Authority’s control environment. It also covers the effectiveness of the internal audit function itself.

Opinion

2. *Based on the findings of the managed audit and governance reviews carried out throughout 2015/16, it is the opinion of the Head of Audit Services that the Authority’s control environment provides assurance that the significant risks facing the Authority are addressed and financial administrative systems are effective.*

Context

3. This report outlines the work undertaken by Audit Services between 01 April 2015 and 31 March 2016.
4. The Council, through the Audit Committee, is responsible for establishing and maintaining appropriate risk management processes, control systems and operational procedures. Audit Services play a vital part in advising that these governance arrangements are in place and operating properly. Day to day responsibility rests with the Director of Resource Management (S151 Officer).
5. It is a management responsibility to develop and maintain the internal control framework (i.e. appropriate risk management processes, control systems, accounting records and governance arrangements) and to ensure compliance. It is the responsibility of the internal audit service to form an independent opinion on the adequacy of the systems of internal control.
6. Audit Services provide management with an objective assessment of whether systems and controls are working properly. Internal audit is a key part of the Council’s internal control system because it independently measures and evaluates the adequacy and effectiveness of controls so that:
 - The Council can establish the extent to which they can rely on the whole system; and

- Individual managers can establish how reliable the systems and controls for which they are responsible are.
7. Audit Services is required by professional standards to deliver an annual internal audit opinion and report to those charged with governance, timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
8. The annual report must incorporate:
- The opinion;
 - A summary of the work that supports the opinion; and
 - A statement on conformance with the Public Sector Internal Audit Standards.

Internal Audit Work during 2015/16

9. 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, for 2015/16, a risk-based 'assurance & planning' tool, designed by Audit Services could be used to generate internal audit work on a rolling basis.
10. 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.
11. For 2015/16, the Head of Audit Services is satisfied that there has been adequate and effective audit coverage provided to enable a robust audit opinion to be given.
12. The Head of Audit Services can confirm that there has been no audit work carried out by audit staff during 2015/16 that has affected the organisational independence of the internal audit activity.

Summary of Internal Audit Work

13. A full list of the internal audit work completed during 2015/16 is provided in Appendix A.
14. Direct internal audit work is split between 'operational audits' and 'assurance framework audits'.
15. Operational audits are detailed audit work carried out to evaluate the Council's effectiveness, efficiency and economy of operations under management's control.
16. Assurance framework 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

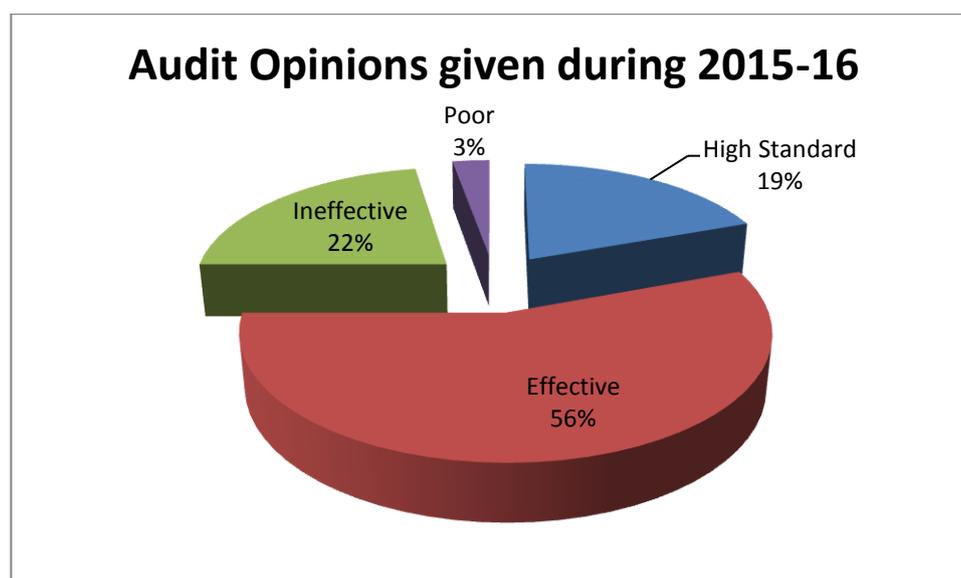
Suffolk County Council – 2015/16 Audit Services Annual Report

against the three lines of defence model which the Council uses to define its overall governance arrangements.

17. The Audit Committee receives summary / progress reports on the audit work undertaken.
18. The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given an overall opinion depending on the strengths of controls and / or the operation of those controls.
19. Explanations of the meaning of the opinions are as follows:-

High Standard (full assurance)	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives.
Effective (substantial assurance)	Whilst there is basically a sound system of control, there are some weaknesses, which put some of the system objectives at risk.
Ineffective (moderate assurance)	There are weaknesses in key areas in the systems of control, which put the system objectives at risk.
Poor (limited / no assurance)	Control is generally weak, leaving the system open to significant error or abuse.

20. As shown in the following chart, the results of audit work carried out in 2015/16 are positive with 75% having an overall Effective or High Standard opinion.

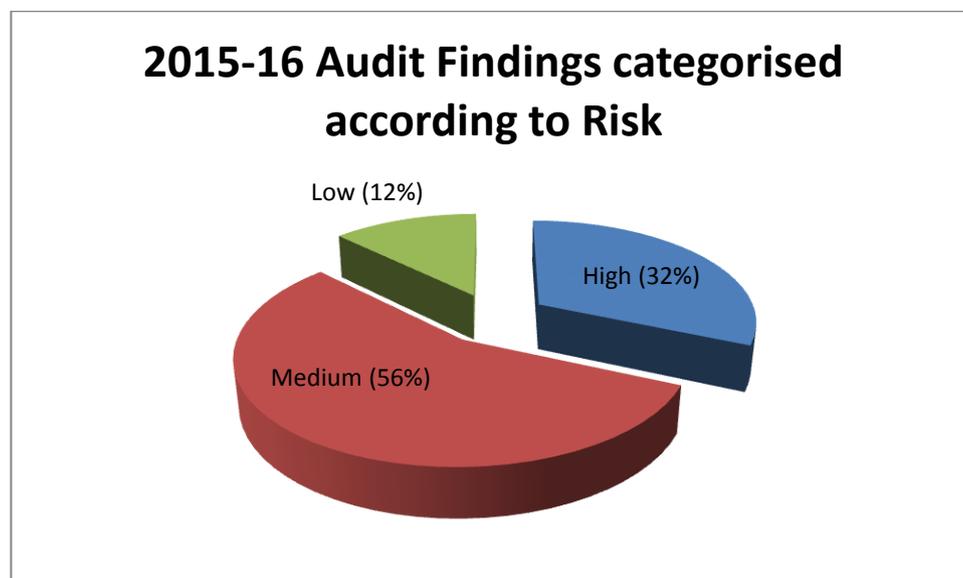


21. However, there were audits which resulted in more serious concerns over controls; eight audits were deemed overall Ineffective and a further one audit was assessed overall as Poor. These relate, in the main, to specific areas rather than an across the board breakdown in controls.

22. Audit findings, which make up the overall audit opinion, are categorised according to risk:

Priority 1	Higher risk - management should be implementing actions as soon as possible
Priority 2	Medium risk - actions should be considered as important to address
Priority 3	Lower risk - but could be implemented quickly for improvement or benefit

23. The following chart shows the percentage of audit findings for 2015/16, categorised according to risk.



24. Where an audit identifies that there is scope to improve the internal control environment, actions are agreed with service managers at the conclusion of each audit; these assist in the implementation of improvements. Whilst Audit Services track the implementation of outstanding actions, it is management’s responsibility to ensure that the relevant controls are in place. The tracking and implementation of all agreed actions are reported to the Audit Committee within regular progress reports. As at 31 March 2016, there were eleven actions which were overdue for implementation.

25. During the year, 98.7% of findings raised resulted in an agreed action (444 out of 450) to improve controls (97.9% for 2014/15). Of the six where no action was to be taken, the reasons for non-implementation were acceptable, taking into account the categorisation of risk.

Summary of Non-Assurance Work

Fraud & irregularity work

26. The size and complexity of the County Council means that some irregularities are inevitable and therefore, in addition to direct internal audit work, a number of special investigations were needed during the year. A separate report on Anti-Fraud & Corruption Arrangements was presented to the Audit Committee in January 2016.
27. Reported irregularities in 2015/16 have resulted in Audit Services having to deploy resources in investigative / reactive work (i.e. where systems / processes and regulations are not functioning as originally proposed resulting in loss to the Council of money or resources). This has included liaison with the Police.
28. The numbers and types of reported irregularities (excluding NFI investigations) deemed specifically as frauds for 2015/16, were as follows:-

Fraud Type	2015/16 Investigations Referred	2015/16 Investigations Completed	Number Proven (i.e. successful Discipline / Prosecution)
Procurement	1 (6)	2 (5)	0
Insurance Claims	0 (0)	0 (1)	0
Social Services	6 (5)	7 (3)	0
Economic & Third Sector Support	3 (0)	2 (0)	0
Debt, Pension & Investment	1 (0)	1 (0)	0
Payroll & Employee Contract	0 (1)	0 (1)	0
Expenses	3 (4)	3 (3)	1 - Member of staff disciplined and dismissed on gross misconduct.
Abuse of Position	6 (0)	6 (2)	0
Theft / Loss of Equipment	8 (4)	9 (3)	1 - Member of staff disciplined and dismissed on gross misconduct.
Other	10 (3)	9 (3)	2 - Written warning provided to member of staff.
Total	38 (23)	39 (21)	4

29. The Head of Audit Services will continue to carefully monitor the number of alleged irregularities to ensure that there is not an issue developing as a result of changes within the organisation.
30. A significant level of work has been carried out by Audit Services on the 2014/15 NFI output and other proactive work. This has seen in the region of £585K being recovered for the County Council, in addition to work undertaken to assist services in the improvement of controls and systems. The majority of this related to residential care payments for deceased customers (£478k) and duplicate payments (£85k). It is important to highlight that much of this relates to error, rather than fraud, thus enforcing the responsibility of service managers to implement effective controls, and to resource

these as required. No referrals to the Police were made in relation to these payments; the monies were recovered from the suppliers concerned.

Advice

31. Audit Services is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that could be raised in future audits and contributes to a stronger control environment. In these instances, an audit opinion will not be given. During the year, Audit Services provided consultancy input into a number of developments / topics, including:

- Contract Management Board
- Information Governance Board
- Next Generation Computing
- Engagement & Communications Board
- Corporate Planning & Performance Board
- Highways Transformation

Certification

32. Audit Services is required to certify a small number of government grants. These were all cleared satisfactorily.

33. In addition, internal audit work has also been undertaken on European grants (income earning).

Audit Committee

34. The following 'Audit Services' papers were presented to the Audit Committee during 2015/16:

- 13 May 2015 – Audit Services Annual Report 2014/15
- 21 July 2015 – Progress Report 2015/16
- 12 November 2015 – Progress Report 2015/16
- 28 January 2016 – Audit Charter & Key Themes 2016/17
- 28 January 2016 – Anti-fraud & Corruption
- 16 March 2016 – Internal Audit Plan 2016/17
- 16 March 2016 – Progress Report 2015/16

[Audit Committee Papers](#)

Effectiveness

35. This section of the report sets out information on the effectiveness of the service and focuses on compliance with the Public Sector Internal Audit Standards (PSIAS), performance and customer feedback.

Public Sector Internal Audit Standards

36. The PSIAS provide a framework for measurement, management and monitoring of the internal audit function.

37. 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. An assessment of Audit Services was carried out by CIPFA in February 2016. This was carried out through a process of document review and interviews with the s151 officer, the Assistant Chief Executive, the Monitoring Officer, the Chairman and Deputy-Chair of the Audit Committee, a sample of audit clients, and internal audit staff.

38. No areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity were identified, nor any significant areas of partial non-compliance.

39. Audit staff also carry-out compliance audits from a 'three year' rolling Quality Assurance Improvement Plan (QAIP) in accordance with the PSIAS for internal reviews against the Standard. Four compliance audits were carried out in 2015/16:-

- 1) Purpose, Authority & Responsibility
- 2) Managing the Internal Audit Activity
- 3) Communicating Results
- 4) Monitoring Progress

40. The compliance audits are reported to the Audit Committee as part of the regular progress reports. These help to identify changes and improvements to the internal audit process. Improvements have been made during 2015/16 and further remodelling is expected during 2016/17.

41. Overall, Audit Services is compliant with the PSIAS.

Quality Assurance

42. Internal audit processes are reviewed annually by external assessors as part of our ISO 9001:2008 accreditation. This inspection provides independent assurance that processes outlined in the Audit manual are being followed. The last assessment, in July 2015, confirmed that Internal Audit has "established and maintained its management system in line with the requirements of ISO 9001:2008 and demonstrated the ability of the system to systematically achieve agreed requirements for products or services within the scope and the organisation's policy and objectives".

Benchmarking

43. The most recently produced Benchmarking data (2014/15) confirms that Audit Services compare very favourably with other County Councils, delivering a low cost and efficient service.
44. Appendix B sets out graphs and information which demonstrate where Suffolk is placed in relation to other participating County Councils.

Performance Measurements

45. The performance measures set out in Appendix C show that Audit Services have achieved all but one of the indicators set for 2015/16.
46. The number of days to despatch an audit report is calculated from the date audit testing is completed (i.e. the aim is to discuss findings, obtain management comments and despatch the final report within 20 working days). Although only 81% of audits were despatched within the target time, this is an increase on 2014/15 (78%). In most cases, delays were due to the auditee holding up the process; either in providing their management comments or being unable to meet with the auditor to discuss audit outcomes in the short term due to other commitments. It is important to keep audits flowing so that their impact is not lost and this will be closely monitored throughout 2016/17.

Customer Feedback

47. Customer surveys are issued after each audit. Information obtained from these provides Audit Services with valuable feedback on its processes (before, during and reporting the audit). A key feature of the audit role is the need to sometimes be critical of existing or proposed arrangements. There is therefore an inherent tension that can make it difficult to interpret surveys. For 2015/16, Audit Services received 93.75% customer satisfaction (over 45% of audits carried out resulted in a completed survey). Comments made in the surveys received include:-
 - a) "I thought it was a rewarding process"
 - b) "The auditor was excellent and really great in understanding my other commitments and was extremely flexible in her requests and meeting schedules"
 - c) "The findings were helpful and I really value the impact an audit has in improving our service area"
 - d) It was very pleasing that the audit was flexible enough to respond to a very last minute change in guidance provided from central government, which would have been easy to disregard".

Audit Networks

48. It is important to keep abreast of best professional practice. Audit Services has strong links with audit colleagues both within Suffolk and nationally, and are members of the County Chief Auditors' Network (CCAN), Home Counties Chief Internal Audit Group

(HCCIAG), Suffolk Working Audit Partnership (SWAPs), and the South East Counter Fraud Hub.

49. The Service has membership to the Institute of Internal Auditors, CIPFA's Better Governance Forum, and CIPFA's Counter Fraud Centre, thus providing staff with technical and professional support.

Opinion

50. It is the responsibility of the County Council to develop and maintain the internal control framework. In undertaking its work, Audit Services has a responsibility under the PSIAS to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived.

51. No system of control can provide absolute assurance against material misstatement or loss, nor can Audit Services give that assurance. The work of Audit Services is intended only to provide reasonable assurance on controls.

52. In assessing the level of assurance to be given, I have taken into account:

- the results of all audits undertaken during 2015/16;
- the results of follow-up audits;
- whether or not 'high risk' findings have been accepted by management and the consequent risks;
- the effect of non-assurance work undertaken during the year;
- the effects of any material changes in the Authority's objectives or activities or risk profile;
- whether any limitations have been placed on the scope of audit; and
- the scope of the internal control environment - which comprises the whole network of systems and controls established to manage the Council to ensure that its objectives are met. It includes financial and other controls, and also arrangements for ensuring that the Council is achieving value for money from its activities.

53. Some significant issues have arisen during the year and, as a result, action plans have been agreed with the relevant managers to address the weaknesses identified. Where weaknesses have been identified, they have tended to relate to specific parts of the organisation rather than an across the board breakdown in controls. Those audits involving major control weaknesses are in the minority and in general terms, controls are sufficient to prevent or detect serious breakdowns in systems and procedures. However, it is clearly important that issues identified during the year are addressed.

54. In giving the audit opinion, I have performed my duties in accordance with CIPFA's guidance on the Role of the Head of Internal Audit.

55. Based on the findings of the managed audit and governance reviews carried out throughout 2015/16, it is my opinion that the Authority's control environment provides assurance that the significant risks facing the Authority are addressed and financial administrative systems are effective.

Peter Frost
Head of Audit Services
21 April 2016

Summary of Assurance Work completed during 2015/16

Audit	Opinion on level of assurance provided by controls
Main Financial Systems	
Treasury Management	High Standard
Pension Fund Investment Management	High Standard
Payroll	Effective
General Ledger	Effective
Income Systems & Processes (Oracle Receivables)	Effective
Expenditure Systems & Processes (Oracle Payables)	Effective
Pension Scheme Administration	Effective
Fire Pension Scheme Administration	Effective
HMRC - Payroll	Ineffective
Assurance Frameworks	
Corporate Governance	Full Assurance
Safeguarding	Substantial Assurance
Programme & Project Management	Substantial Assurance
Information Governance	Moderate Assurance
Financial Governance	
Dedicated Schools Grant Allocation	High Standard
Budgetary Control	Effective
Cash Controls	Effective
Value for Money	
Pool Cars	Effective
Train Tickets	Ineffective
Grant Systems	
Bus Service Operators	Ineffective
Information & Communications Technology	
Security Incident Reporting	Effective
Access Control & User Management	Effective

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Business Continuity	Ineffective
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Audit	Opinion on level of assurance provided by controls
Organisational-wide	
Building Security – Riverside, Lowestoft	Effective
Procurement Rules	Effective
Mileage Payments Review	Effective
Adult & Community Services (ACS)	
Better Care Fund	High Standard
Cash Controls – Adult Social Work Services	Ineffective
Financial Assessments	Ineffective
Children & Young People’s Services (CYP)	
Constitution of Governing Bodies	High Standard
Youth Guarantee Programme (MyGo)	Effective
Financial Governance in Schools	Effective (1)
Financial Assessments	Effective
Kingsfield Pupil Referral Unit	Poor (2)
Public Health	
Trading Standards – Information Management	Effective
Resource Management	
Temporary Traffic Restrictions Process	High Standard
Claims for Passenger Transport	Ineffective
Grants	
Suffolk Broadband	n/a
Lowestoft Local Links	n/a
Troubled Families	n/a
Local Transport Capital Block Funding	n/a

Key:-

- (1) A total of 23 schools were audited and an overall average opinion of “effective” was given.
- (2) This establishment will become an Academy with effect from May 2016.

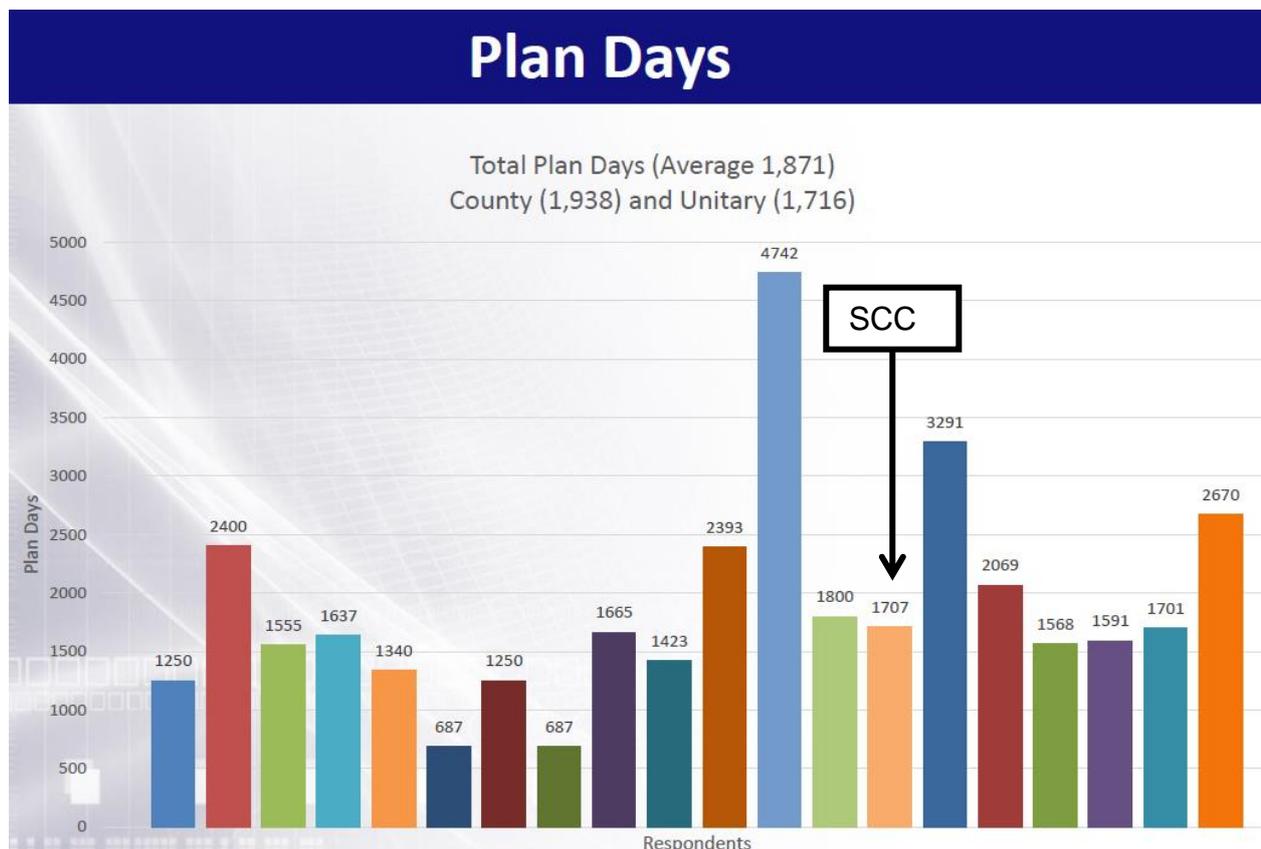
Benchmarking

The latest benchmarking information, produced through the Chief County Audit Network (CCAN), relates to 2014/15. In total, fourteen county councils and six unitary authorities participated in the exercise.

The graphs and information below demonstrate where Suffolk is placed in relation to the participating authorities.

Plan Days

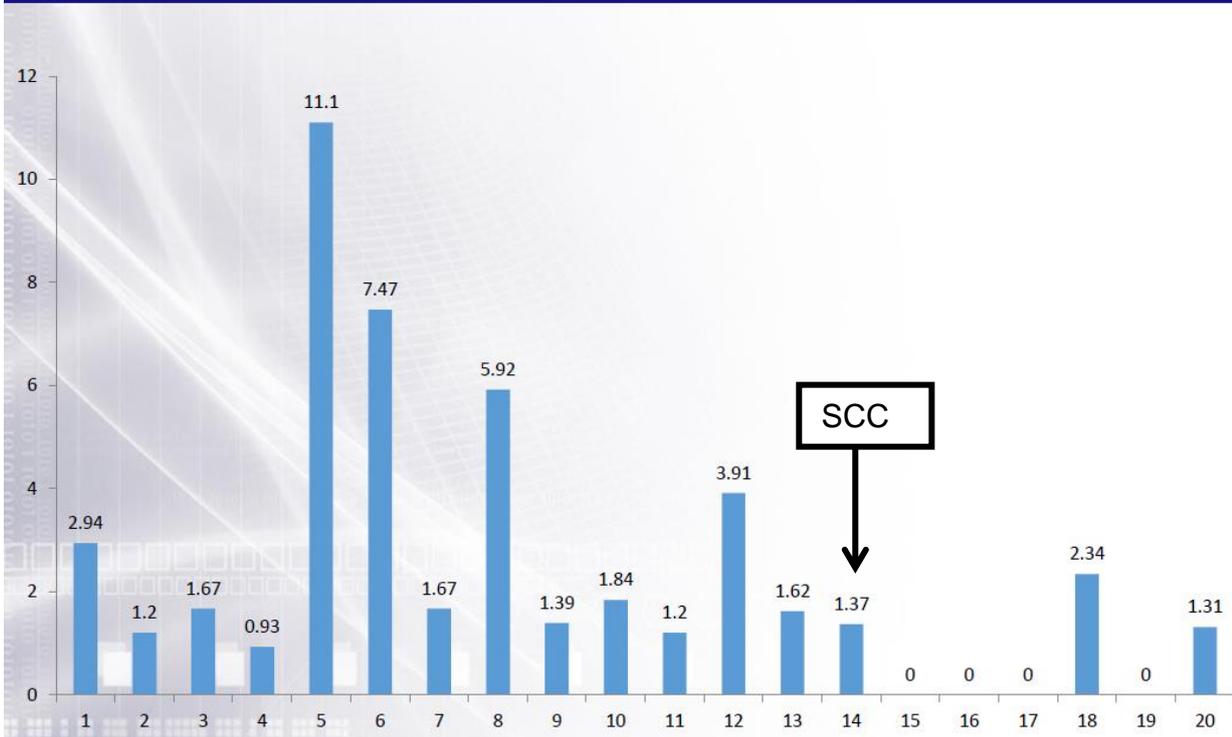
For 2014/15, Suffolk County Council's resources allowed 1,707 planned audit days. This was below the average for counties councils (1,938 days).



Days per £m spend

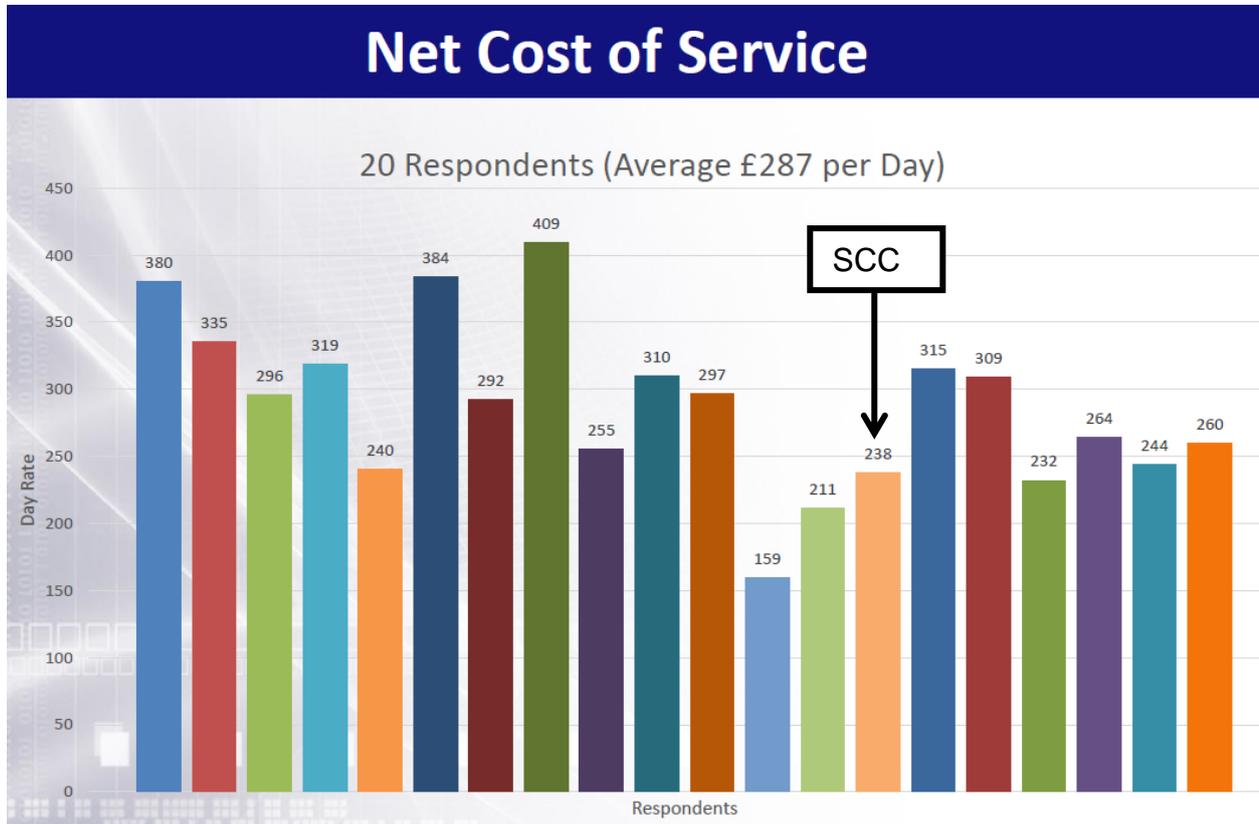
This graph demonstrates the number of in-house audit days per £m turnover of the Council. Suffolk is below the comparator average (1.37 days per £m turnover compared to an average of 2.99 days). It should also be noted that some of the authorities with a lower number of days per £m turnover have bought-in additional days from outside suppliers whereas Suffolk did not buy in any additional days.

Days per £m spend



Net Cost of the Internal Audit Service

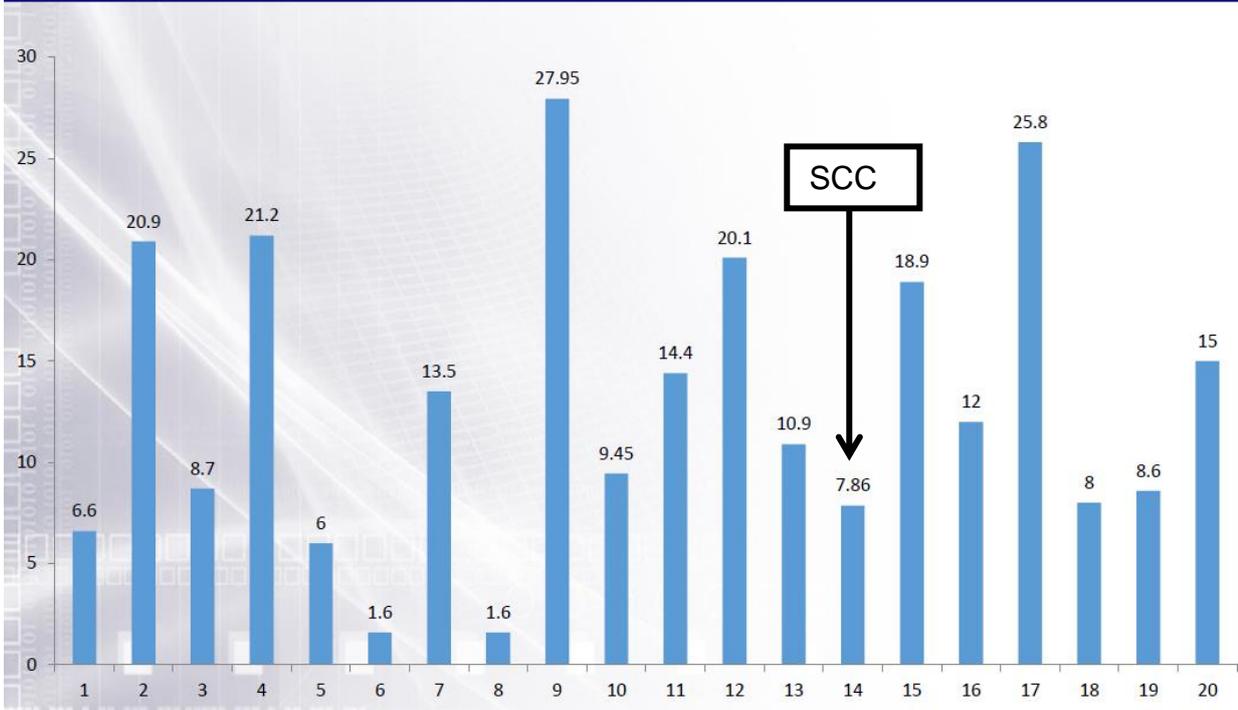
This shows the total net cost of the internal audit function. Suffolk's cost of £238 per day is lower than the average of the participating counties (average of £287 per day).



Full Time Equivalents

The number of full time equivalent internal audit staff for Suffolk in 2014/15 was 7.86. This compares to an average figure of 12.95.

Full Time Equivalents



2015/16 Performance Measurements

Performance Indicator	Outturn 2015/16	Achieved?	Comments/Trend Data
Prepare Effective Audit Plan, approved by s151 Officer and Audit Committee	Achieved		Achieved.
Compliance with PSIAS	Achieved		Achieved – external quality assessment from CIPFA
95% of findings are agreed and have remedial action set.	98.7%		2014/15 – 97.9% (New indicator in 14/15)
Follow-up all agreed actions as a result of audit work carried out	100%		New indicator in 15/16
Despatch minimum 95% of audit reports within 20 working days of completion of audit.	81 %	 (see para 46)	2012/13 – 99% 2013/14 – 77% 2014/15 – 78%
Obtain 100% Director acknowledgement from all audits despatched	100%		New indicator in 15/16
Achieve minimum 90% customer satisfaction with audit.	93.75%		2012/13 – 80% 2013/14 – 100% 2014/15 – 95.6%
Achieve 188.6* days productive time per employee * annually calculated figure from resource plan	188.6 days		2014/15 – 192.6 days against a target of 187.5 days

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Performance Indicator	Outturn 2015/16	Achieved?	Comments/Trend Data
Net cost of service to be below average for county councils (from benchmarking)	£238 (average = £287) (n.b. latest results relate to 14/15)		2013/14 - £206 (average = £255)
Ensure external auditor can place overall reliance on internal audit work	Yes		2012/13 - Yes 2013/14 - Yes 2014/15 - Yes
To deliver the Audit Service within set budget – utilising income as appropriate.	Yes		2014/15 - Yes (New indicator in 14/15)
Compliance with the National Fraud Initiative.	Yes		2014/15 - Yes (New indicator in 14/15)