

Audit Committee

Report Title:	Internal Audit Planning Process and Key Themes 2017/18
Meeting Date:	15 March 2017
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Local Councillor(s):	All
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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 2017/18 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.
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. Audit Services uses an innovative, fluid approach to planning which was first used in 2015/16. This involves utilising a risk-based ‘assurance & planning’ tool which has been developed by Audit Services to determine each ‘next’ piece of audit work. This approach contributed to Suffolk Audit Services winning the Institute of Internal Audit’s Outstanding Public Sector Team award in 2016 and being

shortlisted for CIPFA's Public Finance Innovation in Internal Audit award, the winner of which will be announced in April 2017.

5. The S151 Officer and Chairman of the Audit Committee will be kept fully informed of the audit work planned.
6. 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.
7. 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

8. The Committee is asked to approve the Council's 2017/18 Internal Audit planning approach

Reason for recommendation

9. The Audit Committee has a clear role in relation to oversight of the Council's internal audit function.
10. 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

11. The Committee could recommend a more traditional planning process is deployed.
12. 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?

13. All recipients of Council services.

Main body of report

Background

14. 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".
15. 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.

16. In accordance with the 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.
17. 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 2017. 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

18. 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.
19. For 2017/18, Audit Services will be resourced as follows (2016/17 figures in brackets):

	FTE's	
Head of Audit Services	1	(1)
Principal Auditor	1	(1)
Senior Auditor	1.6	(1.6)
Lead Auditor	3.2	(2.8)
Auditors	<u>0.6</u>	<u>(1.1)</u>
	<u>7.4</u>	<u>(7.5)</u>

20. There is also the likelihood that a member of staff from Finance will be seconded in on a part-time basis for a period of six months.
21. The Head of Audit Services will also use any income earned from audit work carried out to bring in temporary audit resources, if required.
22. The total audit resource for input to the Council is **1,327 audit days** (1,398 days in 2016/17). This excludes an allowance for chargeable work of 67 days (60 days in 2016/17).

Analysis of Auditor Days

	2017/18	2016/17	Comments
Total Gross Days	1,925	1,965	
Overheads	314	281	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	217 (13%)	226 (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	1,394 (87%)	1,458 (87%)	This is the number of days that contribute directly to internal audit activity.
Income Earning	67	60	This covers an allowance for auditing European grants / other grants and the Pension Fund.
Chargeable days – SCC assignment based	1,327	1,398	This is the number of days available for delivering the internal audit service to the Council.
Full-time equivalent audit staff	7.41	7.53	
Productivity	188.1	193.6	Total chargeable days (including income earning) per full time equivalent audit staff

23. The difference in total productivity days of 5.5 days per person is solely down to there being less workable days in 2017/18 compared to 2016/17.

24. The total chargeable audit days (SCC assignment based) for 2017/18 will be split as follows (2016/17 figures in brackets):

Audit Type	Days	%	Description
Operational Audit	851 (802)	64% (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 (48)	4% (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	150 (250)	11% (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	189 (213)	14% (15%)	Irregularity Investigations and proactive fraud work.
Management Activity	89 (85)	7% (6%)	Management input into chargeable audit work which includes planning and reporting to the Audit Committee.
Total	1,327 (1,398)		

Planning Process

25. The scope of Audit Services allows for unrestricted coverage of the Council's activities and, subject to any legal or statutory obligations, unrestricted access

to all of the Council's personnel, records, information and assets that it considers necessary to fulfil its responsibilities.

26. 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.
27. 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.
28. The planning process has also been ratified via an independent External Quality Assessment (EQA) carried out by CIPFA which, under the PSIAS, is a requirement every five years.
29. Furthermore, the planning approach contributed to Suffolk Audit Services winning the Institute of Internal Audit's Outstanding Public Sector Team award in 2016 and it has also been shortlisted for CIPFA's Public Finance Innovation in Internal Audit award, the winner of which will be announced in April 2017.
30. 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) horizon scanning (e.g. changes to / new legislation); and
 - g) 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).
31. 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.
32. The work of Audit Services for 2017/18 will complement a programme of assurance work across the Council and will seek to underpin the five corporate priorities:
- i) Support those most vulnerable in our communities
 - ii) Raise educational attainment and skill levels
 - iii) Support the Local Enterprise Partnerships (LEPs) to increase economic growth
 - iv) Develop Suffolk's infrastructure and maintain roads
 - v) Empower local communities

Whilst these priorities may change following the May election, the planning approach makes it easier to ensure the work identified can be aligned with them.

33. 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 and this is where the planning process in place meets that challenge.
34. The 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 2017/18 and also those which are currently featuring as 'higher priority' pieces of work on the 'assurance and planning' tool (albeit not necessarily to be undertaken).
35. The S151 Officer and Chairman of the Audit Committee will be kept fully informed of the audit work planned throughout the year.

Follow-ups

36. 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.

Fraud

37. 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.
38. Audit Services will also lead on, and deal with, the output from the 2016/17 National Fraud Initiative exercise (including enquiries from other public sector bodies). The results of this exercise may result in the need for Audit Services

to liaise with management to recommend changes in procedures to prevent further losses to the County Council.

Advice and Consultancy Engagements

39. 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.

Other Assurance Providers

40. The focus and responsibility on professional leads and other assurance providers to ensure standards are maintained will be monitored through regular communication.
41. 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

42. 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.
43. Audit Services currently receives income through its audit work on pensions, treasury management and grant claims. Other contracted work will continue to be tendered for, where appropriate.

What is not being done?

44. 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.
45. 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 obtaining an externally provided audit. There should not be an additional cost to the County Council.

Reporting to the Audit Committee

46. In addition to the year-end report (to be reported to the Audit Committee in June), 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.
47. Any significant issues that may jeopardise the delivery of audit work will be identified and addressed and reported to the Audit Committee.
48. The Committee should note that assurance cannot be absolute.

Sources of further information

- a) Public Sector Internal Audit Standards
[Public Sector Internal Audit Standards | CIPFA](#)
- b) Accounts and Audit Regulations 2015
[The Accounts and Audit Regulations 2015](#)
- c) CIPFA - Role of the Head of Internal Audit
[CIPFA Role of the Head of Internal Audit](#)

Operational

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
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
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

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
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

Other Commitments			
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
Grants	Grant Certification	There is a requirement for the Head of Audit Services to certify some grant returns. This certification will only be provided once enough audit work has been undertaken to ensure compliance with grant terms and conditions.	High
HMRC – Use of Consultants, Contractors & Interims / Off Payroll Engagements (IR35)	Main Financial System	To ensure adherence to guidance issued by the Council to ensure compliance with HMRC guidelines on the use of consultants, contractors and interim appointments.	High

Other Coverage			
<p>The following are currently ranked as the highest priority pieces of work. The planning process used by Audit Services means that each next piece of 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 subjects listed below will be completed.</p>			
Subject	Reason	Outline Scope	Priority
Controls to Prevent Social Engineering Fraud	Fraud-related	Councils are susceptible to the scams used by criminals to trick, deceive and manipulate individuals into giving out confidential information and funds. Review the controls in place to ensure staff are informed of the risks and that the Council has the appropriate IT protection – to take into account payment processes and the disposal & security of electronic and paper-based data.	High
Highways Contract	Contract Management	To review the effectiveness of contract management in the highways service.	High
Contract Management in ACS	Contract Management	To review the effectiveness of contract management in ACS (this is a high spend area for the Council and a number of issues have been raised following overpayments identified in relation to residential care within ACS).	High
Income in ACS	Financial Governance	To examine the implications of the increasing risk of reduced income for ACS as a result of various initiatives going on (e.g. policy changes / positive impact where less customers will rely on residential & nursing care – thus less contributions).	High

Tackling Extremism / PREVENT Agenda	Statutory duty	To provide assurance on the adequacy and effectiveness of internal controls to mitigate risk in the following mandatory areas: effective governance of the PREVENT agenda; partnership working; risk assessment & action plans; staff training; use of local authority resources.	High
First / Second Lines of Defence	Key Governance issue	To examine the roles and responsibilities of the first & second lines of defence in relation to the Code of Corporate Governance, including how the move to a 21 st Century Manager & self-service approach is impacting on expected controls across the organisation.	High
Payments – First Line of Defence	Financial Governance	To analyse and assess what the high risk payment areas within the Council are, based on materiality, corporate priorities, vulnerability & management concerns. This analysis will then result in whether further focussed audit work is needed.	High
Follow-ups			
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.			

Advice & Consultancy

Representation on working groups, as deemed appropriate, to advise on risk and control, and inform the planning process.

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
Corporate Planning & Performance Board	Advice & Assurance	To oversee / discuss key corporate performance indicators and risks prior to submission to the Corporate Management Team	High
Information Governance Board	Advice & Assurance	To promote, maintain and review information risk management policy for the Council	High
Highways Programme	Advice & Assurance	Audit support and advice on finance and asset management.	High
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
Engagement & Communications	Advice & Assurance	To provide a forum for discussion between service users, strategic commissioners, technologists and communications professionals.	Medium

Assurance

1. 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.
2. 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.
3. 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.
4. Another benefit of assurance mapping is that it can help the Council identify duplicated effort which might occur when different elements are working in silos.
5. Eight key areas have been identified as part of SCC’s assurance framework. These are:

1. Risk Management	2. Financial Governance
3. Information Governance	4. Corporate Performance & Reporting
5. Commissioning, Procurement & Contract Management	6. People Management
7. Asset Management	8. Programme & Project Management

These eight frameworks will be reviewed by Audit Services and updated accordingly each financial year in order to feed into the Head of Audit opinion. Four further assurance frameworks: business continuity; health & safety; safeguarding & schools are also maintained to support the annual opinion.

Furthermore, other assurance frameworks may be undertaken. These will be derived from Internal Audit’s ‘Risk Assessment and Allocation’ tool.

6. In addition, governance audits are carried out, using the seven principles from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC), to gain assurance on the County Council’s corporate governance framework.

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
National Fraud Initiative	Statutory	Analysis of matches from the 16/17 NFI exercise.	High
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
National Anti-Fraud Network (NAFN)	Compliance	Reactive counter-fraud work on NAFN intelligence.	High

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 S151 Officer and the Monitoring Officer.	High
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
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
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), South East Counter Fraud Hub, London Audit Group (LAG), and the Suffolk Working Audit Partnership (SWAPs).	High
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

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

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
Pension Fund Investment Management	Main Financial System	Compliance review of the Council's Pension Fund Governance and Investment Strategy arrangements.	High
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
Troubled Families Grant	Grant Certification	Audit sample verification of submissions to the DCLG to ensure accuracy of claims.	High