

# INTERNAL AUDIT

## Annual Internal Audit Report 2016/17 and Internal Audit Plan 2017/18

### 1. Background

- 1.1 The statutory basis for Internal Audit in local government is provided by the Accounts and Audit Regulations 2015 which requires a local authority to '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'.
- 1.2 The Public Sector Internal Auditing Standards (the Standards) require the Service Manager (Internal Audit) to report periodically to senior management and the Performance and Audit Scrutiny Committee on Internal Audit's purpose, authority and responsibility and performance relative to its Audit Plan. Also, the Service Manager (Internal Audit) continues to establish a risk-based plan to determine the priorities of the internal audit activity consistent with both councils' priorities.

### 2. Reporting to Senior Management and the Performance and Audit Scrutiny Committee

#### 2.1 Organisational Independence

- 2.1.1 The Standards require Internal Audit to confirm to the Performance and Audit Scrutiny Committee, at least annually, the organisational independence of the audit activity. Internal Audit effectively achieves this through the Performance and Audit Scrutiny Committee's involvement in the following:
  - approval of the risk-based internal audit plan;
  - receiving communications from the Service Manager (Internal Audit) on the internal audit activity relative to the audit plan and other matters; and
  - approval of the internal audit charter as and when required, but not necessarily annually.
- 2.1.2 As further demonstration of organisational independence, the Service Manager (Internal Audit) can confirm that there has been no inappropriate scope or resource limitations placed upon him.

### 2.2 Performance against the 2016/17 Audit Plan

#### Fundamental Systems Audits

2.2.1 During 2016/17, all of the fundamental systems audits included within the audit plan were completed. An overview of the conclusions and main findings of each audit, together with a brief summary of progress made, is provided at **Appendix E**.

#### Corporate Consultancy Work

2.2.2 In addition to continuing to perform the usual statutory fundamental systems audits, and other audit responsibilities, Internal Audit has continued to assist with corporate or consultancy style work. This enables early audit input to activities which can often help to prevent, or bring early resolution to, internal control issues, and also bring audit skills and increase available resource, on significant corporate projects. Work we have been, or are currently, engaged in includes:

- production of the West Suffolk Annual Governance Statement and its associated documents;
- West Suffolk Strategic Risk Register;
- information governance;
- records management;
- input to corporate projects such as the Medium Term Financial Strategy (MTFS) Income and Contracts work streams;
- conducting a 'health check' of the electoral administration processes across West Suffolk;
- undertaking a number of pieces of work requested by the Operations service including reviewing, advising, and providing guidance on the use of fuel cards, and mobile CCTV cameras; reviewing the efficiency of the Fleet service area's financial processes; and reviewing guidance in respect of use of the councils' pool cars; and a process improvement exercise reviewing the fly tipping process;
- performing the Project Assurance role for the Mildenhall Hub Project and in doing so, consider for each stage of the project whether it is on track and in accordance with agreed governance;
- other work on behalf of the Assistant Director (Resources and Performance) including financial due diligence related to areas of potential council investment.

### Fee Earning Work

2.2.3 Internal Audit continued to undertake fee earning work during the year, amounting to approximately £30k of income. This consisted of the following:

- work on behalf of East Cambridgeshire District Council as part of the agreement in place whereby West Suffolk provides that council with internal audit resources to assist in completion of their annual audit plan;
- audit of the council tax, non-domestic rates, and housing and council tax benefits systems at the Anglia Revenues Partnership (ARP) on behalf of East Cambridgeshire District Council (this is in addition to the work referred to above) and Breckland Council; and
- fee earning grant certification work for Suffolk County Council to provide assurance to the Department for Business Innovation & Skills (New Anglia Growth Hub Funding and Employer Ownership Grant Scheme), Trading Standards Institute (Safety at Ports and Borders Team and Single Point of Contact for Border Controls), also, the New Anglia Local Enterprise Partnership (Eastern Agritech Growth Initiative), along with Cambridgeshire County Council (Regional Growth Fund) that the conditions of the specific grant determinations have been complied with.

2.2.4 As mentioned above (paragraph 2.2.3 refers) the West Suffolk Internal Audit Team currently undertakes the council tax, housing benefit and non-domestic rates reviews for Breckland Council, East Cambridgeshire District Council, Forest Heath District Council and St Edmundsbury Borough Council. Now that Waveney District Council, Suffolk Coastal District Council and Fenland District Council have joined the Anglia Revenues Partnership (ARP), discussions are taking place to determine the future internal auditing arrangements at ARP from 2017/18.

2.2.5 During 2016/17 Internal Audit has also responded to 70 requests for financial vetting or other financial due diligence including assessments of organisations' financial suitability to undertake specified contracts for the councils. This has included financial vetting advice in respect of Newmarket Leisure Roofing Refurbishment, Home of Horse Racing Boiler and Kitchen Fit Outs, and industrial units.

### **2.3 Annual Audit Opinion 2016/17**

2.3.1 Internal Audit, having taken into account other internal and external assurance processes of the councils, has an obligation to provide independent, objective assurance from the work undertaken in respect of the effectiveness of the risk management, control and governance processes operating within the councils.

2.3.2 The system of control should help the councils to manage and control the risks which could affect the achievement of the councils' objectives rather than eliminate them completely. Internal Audit and the other assurance processes can therefore only provide within the Annual Governance Statement reasonable and not absolute assurance of adequacy and effectiveness.

2.3.3 **Based upon an independent and objective assessment of the framework of risk management, control and governance processes, Internal Audit can provide reasonable assurance for 2016/17 that the framework has operated adequately and effectively during the year.** This opinion takes into account assurances provided from assurance providers other than Internal Audit, including results of any external inspections undertaken within the year. Information that supports this opinion is included within this report (Appendix A) and also **Appendix E** which gives summary information regarding audits completed within the year.

### 2.4 Quality Assurance and Improvement Programme

2.4.1 The Standards require that internal audit 'must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity'. This quality assurance and improvement programme is designed to check Internal Audit's conformance with the Standards and the Code of Ethics and also assess its efficiency and effectiveness and identify any areas for improvement.

#### Quality Assurance and Improvement Programme

2.4.2 Currently, the quality assurance and improvement programme consists of the following elements:

- annual internal self-assessments are undertaken by completing checklists which measure the extent to which Internal Audit is complying with the Public Sector Internal Audit Standards;
- checklists completed in conjunction with the Chairs of the Performance and Audit Scrutiny Committees, covering those committees' view of Internal Audit's role within the authority and Internal Audit's performance;
- a quality review process is undertaken for each individual audit;
- customer satisfaction questionnaires are issued with audit reports for completion by the service area subject to audit; and
- performance against the Audit Plan is measured via two local performance indicators (paragraph 2.4.7 refers).

### *Annual Internal Self-Assessment*

2.4.3 An internal self-assessment against the Standards has been completed to assess compliance. There are eleven standards – these cover internal audit’s role within the council and day-to-day operational practice. The self-assessment has indicated that Internal Audit’s current practices generally conform to the Standards and the Code of Ethics. The Service Manager (Internal Audit) considers this to be an acceptable result as it will always be extremely difficult, and not necessarily beneficial, for small internal audit sections such as West Suffolk to fully conform to these Standards. Some of the areas identified for further consideration and progress made in respect of these include:

- the Standards require an external assessment of Internal Audit to be undertaken at least every 5 years – this remains under consideration but the costs may outweigh the benefits of this;
- further review and update of the Internal Audit working procedures manual – this is an ongoing exercise;
- review and update of the Internal Audit Charter to ensure it reflects current ways of working, good practice, and the expectations of the Standards – this has been fully revised and is presented to this committee for approval; and
- ensure our audit planning approach conforms with expectations in the Standards – our planning approach was revised for the 2017/18 Audit Plan and the results of this are presented to this committee at Appendix C.

### *Performance and Audit Scrutiny Committee’s Review of Internal Audit’s Role in the Authority and Internal Audit Performance*

2.4.4 Checklists have been completed in conjunction with the Chairs of the Performance and Audit Scrutiny Committees to assess compliance with good practice. These checklists are included at **Appendix B** and demonstrate a high degree of compliance with good practice.

### *Quality Review Process*

2.4.5 For each audit undertaken, the Service Manager (Internal Audit) ensures that:

- all Internal Audit working papers are reviewed to ensure that audit work has been performed in accordance with the agreed objectives for that audit, and sensible conclusions have been arrived at and are based on evidence clearly recorded within the audit working papers;
- the draft audit report issued to management at the end of each audit is accurate, clear, concise, includes all relevant findings, conclusions, and a supportable audit opinion, as well as agreed actions with management which are achievable, make sense, and mitigate risks / add value to the service; and
- the quality review process is robust and properly documented to ensure external audit (currently Ernst & Young) are able to place maximum reliance on Internal Audit’s work should they choose to do so.

### *Customer Satisfaction*

- 2.4.6 At the conclusion of each full audit undertaken the relevant service (e.g. Finance, if it is a financial system being audited) is given the opportunity to complete an online customer satisfaction questionnaire and give their view of the quality and usefulness of the audit review undertaken. Services do however generally prefer to give feedback informally during report discussions. Negative feedback is extremely rare and were this to be received the Service Manager (Internal Audit) would discuss this with the relevant service manager with a view to making any necessary improvements for the future.

### *Local Performance Indicators*

- 2.4.7 As mentioned above in paragraph 2.4.2 internal audit performance against the Audit Plan is measured throughout the year, via two local performance indicators, as follows:

*(1) The percentage of the planned core financial and information systems audits completed during the year – these audits are an integral part of the annual internal audit opinion which underpins the Annual Governance Statement, and it is these audits on which the external auditors may seek to place reliance or take account of for their work on the annual Statement of Accounts.*

100% of planned core systems audits were completed for the year 2016/17

*(2) External audit utilisation of internal audit work*

The external auditors (Ernst & Young) have confirmed that they continued to take account of the work of Internal Audit during the year.

### *Assessment of the workings of the Performance and Audit Scrutiny Committee against good practice*

- 2.4.8 When looking at the effectiveness of internal audit, this incorporates more than just the Internal Audit section: the Performance and Audit Scrutiny Committee is also a key element of this process.

A checklist has been completed in conjunction with the Chairs of the Performance and Audit Scrutiny Committees reviewing these committees against good practice. Based on these completed checklists, the Service Manager (Internal Audit) has concluded that the function and operation of the Performance and Audit Committees essentially satisfies the key requirements of the good practice document 'Toolkit for Local Authority Audit Committees'. See attached completed checklist at **Appendix B**.

### Conclusion on Review of Effectiveness of Internal Audit

2.4.9 The completion of checklists referred to above provides evidence to the Performance and Audit Scrutiny Committees that internal audit is effective and the opinion of the Service Manager (Internal Audit) in this Annual Report can be relied upon as a key source of evidence in the production of the Annual Governance Statement.

### **3. Internal Audit Plan 2017/18**

3.1 The objectives of internal audit are to:

- provide a professional, independent and objective assurance and advisory service that assists the Assistant Director (Resources and Performance) in her statutory duty as Section 151 Officer at both West Suffolk councils to ensure that the finances of each council are properly administered; and
- work with management to improve the operation of the councils.

3.2 The internal audit service is delivered and developed in accordance with the West Suffolk Internal Audit Charter presented to the Performance and Audit Scrutiny Committees along with this Audit Plan.

3.3 In accordance with the Public Sector Internal Audit Standards an annual risk-based Audit Plan has been established. The purpose of the Audit Plan is to provide the framework for internal audit resources, focusing on activity that will make the most difference to achieving West Suffolk priorities. The Audit Plan takes into account the need to produce an annual internal audit opinion for each West Suffolk council, in support of, and taking into account the assurance framework operating at both councils. This annual internal audit opinion underpins the Annual Governance Statement.

3.4 The proposed 2017/18 Audit Plan is provided at **Appendix C** and has been produced based on extensive consultation and discussion with senior management and key officers to ensure it is focused on organisational priorities, key risks, core systems and programmes, and areas where internal audit can effectively contribute to the efficiency and effectiveness of governance, risk management and control processes. Risks contained within the Strategic Risk Register were also considered.

## Appendix A

- 3.5 The following criteria were used to risk assess potential audit areas to be included in the Audit Plan:
- materiality – in monetary terms the relative significance or importance of the system or process to the councils;
  - corporate importance – the extent to which the councils depend on the correct running of the system, whether for legal or regulatory requirements or to meet strategic priorities;
  - vulnerability – the extent to which the system or process is liable to breakdown, corruption, loss, error etc;
  - management concerns – direct requests for support; and
  - controls assurance – information taken from previous internal audit work as well as other assurance processes within, and external to, the councils.
- 3.6 The draft Audit Plan includes work under a number of different headings as follows:
- main financial systems
  - added value work
  - corporate and business area risk based audits
  - fraud, irregularity and probity
  - other audit activity to support the audit opinion
  - fee earning
  - other work
- See Appendix C for detailed information.
- 3.7 While every effort will be made to deliver all audits included in the Audit Plan, the need for flexibility in the use of internal audit resources should be recognised so that changing circumstances and emerging risks can be responded to where necessary. The draft Audit Plan as presented at Appendix C therefore represents the Service Manager (Internal Audit)'s current view of how audit resources can be most effectively used – where significant deviations to the plan are required this would be reported to the Performance and Audit Scrutiny Committee as appropriate. Wherever possible, higher risk areas will be given greater priority.
- 3.8 The Service Manager (Internal Audit) will remain alert to emerging local and national issues and risks through a number of channels, including:
- attendance at senior officer meetings including Senior Management Team (Leadership Team and Service Managers), the member and officer Strategic Risk Management Group, staff briefings, feedback from S151 Officer, and networking with other West Suffolk colleagues;
  - regular liaison and meetings with other councils' audit managers within the region;
  - regular liaison and meetings with external audit; and
  - professional reference material, websites, and discussion forums.



## Appendix A

- 3.9 This year, alongside the audit planning process Internal Audit commenced an assurance mapping exercise in order to consider whether there is a comprehensive risk and assurance framework operating, with no significant gaps. Through integrating this exercise with the audit planning process Internal Audit are then able to ensure their activities can be targeted, minimise duplication of effort through co-ordinating activities with other management activities, and develop an increased awareness of the West Suffolk wider assurance framework. Where any sources of assurance other than the work contained within this Plan are relied on in forming the annual audit opinion for each council, additional work may be undertaken by Internal Audit where necessary and appropriate to validate these other sources of assurance.

### 4. Resources

- 4.1 The staff complement of the team is currently 3.6 Full Time Equivalent (FTEs) comprising of the Service Manager Internal Audit (1 FTE), two Senior Auditors (2 FTEs), and an Auditor (0.6 FTE).
- 4.2 The work of the team is clearly influenced by the resources made available by the councils for Internal Audit. For this reason a balance needs to be achieved in terms of keeping costs at a realistic level, focusing resources on activity that will make the most difference to achieving West Suffolk priorities, whilst also ensuring that the level of audit coverage is appropriate and sufficient to enable the Service Manager (Internal Audit) to discharge his duty to provide a robust annual internal audit opinion in support of the West Suffolk Annual Governance Statement.
- 4.3 The Service Manager (Internal Audit) considers that the current Internal Audit staff resource is adequate to fulfil the requirements of this Audit Plan and meet statutory obligations to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes.
- 4.4 The skills, knowledge, and experience of internal audit staff have been taken into account when drafting the Audit Plan.

### 5. Managing the Risk of Fraud, Theft and Corruption

- 5.1 The West Suffolk councils have a sizeable workforce, significant levels of income and expenditure, and provide a variety of services. Despite occasional incidents, probity is judged to remain at a high level.
- 5.2 Managing the risk of theft, fraud and corruption is considered in detail at **Appendix D.**