

# INTERNAL AUDIT

## Internal Audit Annual Report 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 Audit Standards (the Standards) require the Internal Audit Service Manager to report periodically to senior management and the Performance and Audit Scrutiny Committee on Internal Audit's purpose, authority, responsibility, and performance relative to its Audit Plan.

### 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 Internal Audit Service Manager on the internal audit activity relative to the audit plan and other matters; and
  - approval of the internal audit charter as and when required.
- 2.1.2 As further demonstration of organisational independence, the Internal Audit Service Manager can confirm that there has been no inappropriate scope or resource limitations placed upon him.

**2.2 Performance against the 2017/18 Audit Plan - work supporting the annual internal audit opinion (assurance work)**

Main Financial Systems Audits, and Corporate and Business Area Audits

2.2.1 During 2017/18, all of the main financial systems audits included within the audit plan were completed, as well as a number of corporate and business area audits. An overview of the conclusions and main findings of each audit, together with a brief summary of progress made, is provided at **Appendix B**.

Other audit activity supporting the annual internal audit opinion

2.2.2 In addition to performing the work referred to above Internal Audit has engaged in other audit activity supporting the annual internal audit opinion in the following areas:

- production of the West Suffolk Annual Governance Statement and its associated documents;
- West Suffolk Strategic Risk Register;
- information governance including information checks;
- engagement and management of commissioned services including project feasibility work;
- Disabled Facility Grants audit
- Cash collection arrangements
- Feeding into an officer review of delivery of elections and electoral registration
- Review of arrangements preparing for the General Data Protection Regulation (GDPR) which comes into effect on 25 May 2018.
- Review of licensing processes moved to Customer Services
- Review of record retention arrangements in service areas
- Review of reporting to the Suffolk Safeguarding Boards self-assessment including developing a new template
- other work on behalf of the Assistant Director (Resources and Performance) including review of Greenheath Energy Ltd.'s 2017 financial statements
- regular liaison with external audit and other Suffolk audit teams

2.2.3 Proactive anti-fraud work is covered in the report Managing the Risk of Theft, Fraud and Corruption at **Appendix C**. It can be seen from this report probity within the councils has continued to remain at a high level for 2017/18.

### 2.3 Non-assurance work

2.3.1 Internal Audit continued to undertake fee earning work during the year, amounting to approximately £13k of income. This consisted of the following:

- audit of the council tax, housing and council tax benefits, and overpayments systems at the Anglia Revenues Partnership (ARP) on behalf of Breckland Council, and the Local Government Shared Service (LGSS) who provide the internal audit service for East Cambridgeshire District Council; and
- grant certification work for Suffolk County Council and the New Anglia LEP.

2.3.2 During 2017/18 Internal Audit has also responded to over 50 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 the Solar PV for Business initiative and industrial units.

2.3.3 Internal Audit also performed the Independent Examination of the West Stow Anglo Saxon Village Trust 2016/7 accounts.

### 2.4 Annual Internal Audit Opinion 2017/18

2.4.1 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.

2.4.2 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.

2.4.3 **Opinion - based upon an independent and objective assessment of the framework of risk management, control and governance processes, Internal Audit can provide reasonable assurance for 2017/18 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 B** which gives summary information regarding audits completed within the year.

### 2.5 Annual Internal Audit Opinion from 2018/19

2.5.1 In order to make the annual internal audit opinion more informative and transparent it is intended that from 2018/19, rather than report one opinion covering risk management, control and governance, instead four separate opinions will be reported, these being an opinion on:

- Risk management
- Internal control
- Governance
- Financial control

2.5.2 It should be noted that of the above four opinions the first three areas are already explicitly referred to in the existing 'blanket' opinion but a fourth area, financial control, is also proposed as a distinct area due to its perceived importance. The current intention is to assign each of the four opinions with a Red Amber Green (RAG) rating based on the audit activity and intelligence gathered during the year.

### 2.6 Quality Assurance and Improvement Programme

2.6.1 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.

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

- an external assessment to independently assess conformance with the Standards every five years – the first such assessment of Internal Audit was conducted this year, with good results, and is the subject of a separate report to the Performance and Audit Scrutiny Committee on this agenda;
- annual internal self-assessments are undertaken in years where there is no external assessment by completing checklists which measure the extent to which Internal Audit is complying with the Public Sector Internal Audit Standards;
- targeted audit reviews of compliance with specific Standards – in 2017/18 a review was conducted against Standard 2200 (Engagement Planning);
- 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

## Appendix A

- performance of Internal Audit has to date been measured via two local performance indicators. We have revisited this area and from the 2018/19 Annual Internal Audit Report onwards we will be reporting against a number of new internal audit performance indicators which are currently being trialled.

### *Annual Internal Self-Assessment*

- 2.6.3 Some self-assessment work was undertaken during the year in order to prepare for the external assessment. This resulted in some further tightening of audit working practices to ensure that audit processes are fully evidenced. As in previous self-assessments the conclusion drawn was that internal audit working practices substantially complied with the expectations of the Public Sector Internal Audit Standards.

### *External Assessment*

- 2.6.4 The full results of the external assessment are detailed in a separate report on this agenda to the Performance and Audit Scrutiny Committee. The overall conclusion drawn by the assessor was that that **no areas of non-compliance with the Standards were identified that would affect the overall scope or operation of the internal audit activity**. This should be seen as a very good result as it confirms our view that we achieve a good level of compliance with the Standards.

### *Quality Review Process*

- 2.6.5 For each audit undertaken, the Internal Audit Service Manager 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 are able to place maximum reliance on Internal Audit's work should they choose to do so.

### *Customer Satisfaction*

- 2.6.6 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 rare and when this is received the Internal Audit Service Manager would discuss this

with the relevant service manager with a view to making any necessary improvements for the future where appropriate.

### *Local Performance Indicators*

2.6.7 Internal audit performance against the Audit Plan is currently measured throughout the year, via two local performance indicators, as follows:

*(1) The percentage of the planned main financial 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 main financial systems audits were completed for the year 2017/18

*(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.

## **2.7 Conclusion on Review of Effectiveness of Internal Audit**

2.7.1 The Quality Assurance and Improvement Programme outlined above, and in particular the **results of the recent external quality assessment of Internal Audit** referred to in paragraph 2.6.4, provides evidence to the Performance and Audit Scrutiny Committees that **Internal Audit is effective** and the **opinion of the Internal Audit Service Manager in this Annual Report can be relied upon as a key source of evidence in the production of the Annual Governance Statement.**