Agenda Item No. 11
Appendix A

Internal Audit

West Sussex County Council

Internal Audit Plan 2017/18

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Internal Audit – Key Contact Information

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Internal Audit Strategy & Approach

Purpose

The overall purpose of the Internal Audit work plan is to provide the framework for the use of audit resources. It is a yardstick for measuring audit performance ensuring that resources are focused on activity that will make the most difference to securing the objectives of the council

Audit Strategy

The vision of the County Council is to make a difference for the benefit of the residents of West Sussex, working with individuals and communities to understand and meet their needs and aspirations. To demonstrate this, there will be a strong focus on performance and delivery of goals set in the performance framework and service plans. The Council will live within its means, reducing costs wherever possible and investing scarce resources wisely so that more of a difference can be made for residents.

Internal Audit plays a key role in proactively working with senior managers as part of the Council's journey to deliver its organisational objectives effectively. To support this aim, Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Specifically, Internal Audit strategy is:

- To carry out continuous quarterly auditing of significant core financial systems such as payroll, accounts payable etc. to verify financial control and compliance with the County Council's financial regulations and procedures.

- To carry out reviews of service systems and developments to provide management with assurance as to the adequacy of the control environment and the systems in place for ensuring proper economic, efficient and effective use of resources.

- Verification that the County Council's standing orders is being observed in relation to contracts.

- To carry out periodic visits to all secondary schools and a few larger primary schools throughout the County to verify, by means of testing and review, that good financial control is practised. Regularity of visits will be determined on a risk basis including assessment of submitted School Financial Value Standards (SFVS) returns and may be supplemented by thematic reviews.

- To review corporate and service arrangements for risk management.

- To promote the County Council's anti-fraud and corruption strategy and carry out investigation of suspected frauds and irregularities.

- To provide advice and support to managers as required.

The effectiveness of Internal Audit in delivering the strategy through the annual audit plan will be monitored by the Regulation, Audit and Accounts Committee (RAAC). This Committee will receive reports from the Head of Internal Audit detailing key issues and the status of significant audit findings and recommendations. The percentage of audit recommendations implemented by each directorate will be reviewed by RAAC as part of the annual audit report submitted by the Head of Internal Audit.

2017/18 Service Plan Delivery

This plan has been drafted following consultation with Directors and Heads of Service in order to elicit their views and proposals.

The plan aims to deliver a range of audit services, via the Executive Director of Corporate Resources & Services to the following:

West Sussex County Council
Sussex Police/Office of Police & Crime Commissioner
Chichester Harbour Conservancy

The cost of audit work on behalf of external customers is fully recovered through charges to these bodies.

Basis of Audit Opinion

Internal Audit is an assurance function whose primary purpose is to provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance. With the exception of consultancy work, all audit reports issued include an assurance rating on the basis of the definitions shown below. Individual assurance ratings help determine the overall audit opinion at the end of the financial year.

Standard Definitions

Substantial Assurance:	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found.
Satisfactory Assurance:	While there is a basically sound system, there are weaknesses which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance:	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance:	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

The annual audit opinion provided by the Head of Internal Audit for 2017-18 will be based upon:

- Reviews undertaken during 2017-18.
- Follow up of actions against audit recommendations made in 2016-17.
- Management responses to findings and recommendations
- Effects of significant changes to the financial systems
- Assurances received from other sources
- The extent of resources available to deliver the audit plan.

The annual opinion will be reported to the Regulation, Audit and Accounts Committee.

Internal Audit - Resource Plan 2017/18 (Days)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total	Plan 2016/17
Resource available						
Internal	585	585	585	585	**2,340**	2,340
External	10	35	35	30	**110**	101
Total	**595**	**620**	**620**	**615**	**2450**	2,441
Non Direct WSCC Audit						
Public Holidays	36	9	18	18	**81**	54
Annual/Other Leave	60	120	40	40	**260**	260
Sickness	10	5	5	10	**30**	30
Training/Seminars etc.	20	20	20	20	**80**	80
Audit Management, Planning & Committee Work	110	100	60	110	**380**	380
External Clients	50	90	65	60	**265**	250
Sub-Total	**286**	**344**	**208**	**258**	**1,096**	1,054
Direct WSCC Audit						
Audit Reviews	170	150	200	190	**710**	767
Establishment Visits	60	30	90	49	**229**	177
Development	9	16	30	25	**80**	92
Consultancy	20	50	57	58	**185**	201
Anti Fraud	50	30	35	35	**150**	150
Sub-Total	**309**	**276**	**412**	**357**	**1,354**	1,387
Total	**595**	**620**	**620**	**615**	**2,450**	2,441

Audit Reviews

Review	Lead Directorate	Days
Corporate Support Systems		
Capita Services & Contract	Transformation, Customer etc.	20
Service Business Resilience Plans	Corporate	15
Telecommunications	Transformation, Customer etc.	10
IT Infrastructure	Transformation, Customer etc.	20
E-mail/exchange server	Transformation, Customer etc.	10
PC End User Controls	Transformation, Customer etc.	10
GDPR Compliance	Transformation, Customer etc.	10
Access Control	Transformation, Customer etc.	10
Contract Variations	Corporate	15
Public Procurement Regulations 2015	Finance, Performance etc.	20
Contract – Single Tenders/Waivers	Corporate	10
Agency Staff	Corporate	15
Health & Safety	Corporate	15
Scheme of Delegation	Corporate	10
Giving children the best start in life		
Crawley Schools PFI	Children, Adults' etc.	15
Safeguarding Children	Children, Adults' etc.	20
Unaccompanied Asylum Seeking Children	Children, Adults' etc.	10
Direct Payments – Children	Children, Adults' etc.	10
Fostercare	Children, Adults' etc.	15
Special Education Needs	Children, Adults' etc.	15
Serious Case Reviews	Children, Adults' etc.	10
Independent for longer in late life		
Public Health Contracts	Children, Adults' etc.	20
Domiciliary Care	Children, Adults' etc.	20
Customer Financial Administration	Children, Adults' etc.	15
Direct Payments – Adults	Children, Adults' etc.	10
Championing the local economy		
Highways Asset Management Systems	Economy, Infrastructure etc.	20
Public Transport Contracts	Economy, Infrastructure etc.	20
Fleet Management	Communities & Public Protection	15
Other		
Carried Forward 16/17 Plan		60
Contingency		60

Total Days	**525**

Audit Reviews – Compliance

Review	Lead Directorate	Days
Accounts Receivable	Finance, Performance etc.	10
Main Accounting System	Finance, Performance etc.	15
Capital Accounting & Monitoring	Finance, Performance etc.	5
Treasury Management	Finance, Performance etc.	10
Payments	Finance, Performance etc.	20
Pension Administration	Finance, Performance etc.	20
Internally Managed Investments	Finance, Performance etc.	10
Externally Managed Investments	Finance, Performance etc.	10
Payroll	Transformation, Customer etc.	30
Social Care Feeder Systems	Children, Adults etc.	15
Fire Core Systems	Communities & Public Protection	10
Grant Claims	Various	15
Think Family	Children, Adults etc.	10
IR35 Compliance	Transformation, Customer etc.	5

Total Days	185

Establishment Visits

Review	Directorate	Days
Secondary Schools (8)	Children, Adults etc.	60
Primary Schools (14)	Children, Adults etc.	100
Nursery (3)	Children, Adults etc.	15
Early Year Providers (4)	Children, Adults etc.	8
Risk Assessment	Children, Adults etc.	5
Family Operations (5)	Children, Adults etc.	20
Adults' Services (4)	Children, Adults etc.	16
Coroner (1)	Communities & Public Protection	5

Total Days	229

Audit Development

Review	Directorate	Days
Data Analytics	Finance, Performance etc.	50
Quality System/PSIAS	Finance, Performance etc.	20
Team Development/SharePoint	Finance, Performance etc.	10

Total Days	80

Audit Consultancy

Review	Directorate	Days
Advice & Consultancy	Corporate	100
Audit Network Groups	Corporate	20
Risk Management Group	Corporate	10
Information Security Group	Corporate	5
Lead Information Governance Group	Corporate	5
SAP Optimisation	Corporate	20
IT Audit Contract	Corporate	5
Highways Term Maintenance Contract Group	Economy, Infrastructure etc.	10
Children Homes Procedures	Children, Adults etc.	10

Total Days	185

Anti-Fraud

Review	Lead Directorate	Days
Pro-active Work	Corporate	35
Fraud/irregularity Investigations	Corporate	80
National Fraud Initiative	Corporate	35

Total Days	150

External Clients

Review	Lead Directorate	Days
Sussex Police/OSPCC	External	260
Chichester Harbour Conservancy	External	5

Total Days	265

Appendix A - Performance

The following performance indicators will be presented to RAAC during the year:

Performance Indicator	What does it tell us?	Measure	Frequency	Target
% medium & high priority recommendations implemented	Effectiveness of IA & compliance by services	Recommendations implemented by services & signed off by audit.	Quarterly	>90%
% recommendations agreed by services	Effectiveness & Quality of IA	Recommendations agreed in Final reports	Quarterly	>95%
% productive audit days delivered against plan days (Includes detailed breakdown against actual profile)	Productivity & efficiency of IA	Productive days are chargeable days excluding management time, planning, leave & training etc. Plan days are profiled by quarter	Quarterly	>100%
Composite daily rate against market rate for general auditor	Comparative cost of audit function	Daily rate as % against regional audit framework daily rate (total cost of audit function against productive days delivered)	Annually	<100%
Customer satisfaction	Customer satisfaction with IA process over various categories	% positive responses to questionnaires received	Annually	>90%

Appendix B – Internal Audit Charter

Scope and objectives

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The requirement for an internal audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs". The Accounts and Audit Regulations 2015 more specifically require that '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'. The Director of Finance, Performance & Procurement is responsible for establishing arrangements for audit of the County Council's financial affairs. This responsibility is discharged through the Head of Internal Audit and the Internal Audit function.

Reporting lines and relationships

Internal Audit is located within the Finance, Performance & Procurement Directorate. The reporting relationships are defined below:

- Chief Executive
- Director of Finance, Performance & Procurement (s151)
- Head of Internal Audit

Executive Leadership Team	• Review key findings • Status of recommendations • Agree Annual Internal Audit Plan • Annual Opinion & Report
Regulation, Audit & Accounts Committee	• Audit Strategy & Terms of Reference • Annual Internal Audit Plan • Annual Audit Opinion & Report • Significant Audit Findings/status of recommendations
External Audit	• Planning of Core Financial Systems Coverage • Internal Audit Reports • Ongoing Liaison
Directors	• Agreement of Audit Coverage & Findings • Internal Audit Reports • Status of Implementation of Recommendations • Annual Assurance Statements

All audit reports issued include an assurance rating. Individual assurance ratings help determine the overall audit opinion at the end of the financial year. The Head of Internal Audit is required to deliver an annual audit opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment. This opinion will be reported to the Regulation Audit and Accounts Committee.

Independence and accountability

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has direct access and freedom to report in his own name and without fear or favour.

Responsibilities

Internal Audit

Internal Audit is responsible for:

(a) Examining and evaluating the Council's system of internal control.
(b) Reviewing and appraising the suitability and integrity of financial and other management data including performance measurement.
(c) Reviewing and appraising the means of safeguarding assets from loss.
(d) Investigating frauds and irregularities where appropriate.
(e) Reviewing systems to ensure compliance with those policies, plans, procedures and regulations that could have a significant impact on operations.
(f) Advise on internal control and risk implications of enhancements to existing or new systems.

Regulation Audit & Accounts Committee

In accordance with terminology described in the PSIAS, the role of the 'board' will be fulfilled by the Regulation, Audit and Accounts Committee (RAAC).

The purpose of the audit function of the RAAC is to provide independent assurance of the adequacy of risk management framework and the associated control environment, independent scrutiny of the County Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

The RAAC is responsible for:

(a) Considering the Head of Internal Audit's annual report and opinion, and a summary of internal activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
(b) Approving the internal audit annual work programme.
(c) Monitoring the effectiveness of the County Council's external audit arrangements, including liaison between internal and external audit.
(d) Monitoring the implementation of recommendations arising from the findings of significant audit work.

Director of Finance, Performance & Procurement

The Director of Finance, Performance & Procurement is responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.

The Director of Finance, Performance & Procurement has statutory duties in relation to the financial administration and stewardship of the County Council. The statutory duties arise from section 151 of the Local Government Act 1972 with responsibilities that include:

(a) The proper administration of the County Council's financial affairs
(b) Setting and monitoring compliance with financial management standards
(c) Compliance with government financial requirements
(d) Internal Audit & line manager to Head of Internal Audit
(e) The Financial Procedures

The Director of Law & Assurance

The Director of Law & Assurance is the designated Monitoring Officer for the Council. The Monitoring Officer is responsible for:

(a) Ensuring that the County Council acts and operates within the law. He or she has a duty to report to the whole Council if the Council has broken or may have broken the law.
(b) Arrangements to support the Council's functions and activities including regular reviews of the Council's Constitution.
(c) Supporting the Council's Governance, Standards and Regulation, Audit and Accounts Committees and helping promote high standards of conduct by Council members, officers, partners and contractors. Establishing and maintaining a register of interests for elected and co-opted members.
(d) The Council's Confidential Reporting Code which supports whistleblowing by staff
(e) The Council's anti-bribery policy and procedures.

Directors of the Executive Leadership Team

In accordance with terminology described in the Public Sector Internal Audit Standards (PSIAS), the role of 'senior management' will be fulfilled by the Directors of the Executive Leadership Team. Directors are responsible for:

(a) Managing processes to check that established controls are being adhered to and annually to evaluate their effectiveness, in order to be confident in the proper use of resources, achievement of objectives and management of risks.
(b) Reviewing existing controls in the light of changes affecting the County Council and to establish and implement new ones in line with guidance from the Director of Finance, Performance & Procurement. Directors should also be responsible for removing controls that are unnecessary or not cost or risk effective, for example, because of duplication.
(c) To ensure staff have a clear understanding of the consequences of lack of control.

Access

The Director of Finance, Performance & Procurement is responsible for ensuring that Internal Audit has the Authority to:

(a) Access all County Council premises at reasonable times.
(b) Access all assets, records, documents, correspondence and control systems.
(c) Receive any information and explanation considered necessary concerning any matter under consideration.
(d) Require any employee of the County Council to account for cash, stores or any other County Council asset under his or her control.
(e) Access directly the head of paid service (the Chief Operating Officer), the Cabinet and Regulation, Audit and Accounts Committee.

Directors are responsible for ensuring that internal auditors are given access at all reasonable times to premise, personnel, documents and assets that the auditors consider necessary for the purposes of their work.

Resources

Internal Audit resourcing requirements will be reviewed on an annual basis as part of the audit strategy that will match the audit needs assessment against available internal audit resource. Where there is a significant imbalance, the RAAC will be informed and appropriate solutions agreed.

Audit standards

Internal Audit works to the standards prescribed by the Public Sector Internal Audit Standards (PSIAS) 2013. A self-assessment against these standards will be undertaken annually and the results considered by RAAC.