

Internal Audit Plan 2017/2018

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Cabinet Member: Mr Harvey Siggs

Division and Local Member: All

1. Summary/link to the County Plan

- 1.1. Delivery of the County Plan requires strong internal controls across all areas. The Internal Audit Plan is one of the key mechanisms by which the County Council derives its necessary assurance that systems and controls are working effectively.
- 1.2. The proposed Internal Audit Plan for 2017/2018 has gone through a number of officer review processes in order to concentrate resources on those areas where there is particular risk to service delivery.
- 1.3. The internal audit service provided by the South West Audit Partnership Limited (SWAP), works to a Charter that defines its roles and responsibilities, and also the roles and responsibilities of the County's managers as they relate to internal audit.

2. Issues for consideration

- 2.1. Members are asked to approve the Internal Audit Plan for 2017/2018 (attached as Appendix A), re-approve the Internal Audit Charter (attached as Appendix B), and support the new process for delivering effective audits (attached as Appendix C).

3. Background

- 3.1. The Accounts and Audit Regulations require Somerset County Council to have "an adequate and effective system of internal audit" in accordance with "proper internal audit practices". Responsibility for this rests with the section 151 officer, which at Somerset is the Director of Finance and Performance. Day-to-day contact with SWAP in delivery of the Internal Audit Plan is delegated to the Strategic Manager – Financial Governance.

- 3.2.** Internal audit (delivered independently through SWAP) is an essential part of the County Council's governance arrangements. SWAP provide us with independent and objective assurance, systematically evaluating our controls and risks, and contribute towards the proper economic efficient and effective use of our resources (CIPFA). Essentially, our internal auditors should be seen as an aid to members and management to carry out their own respective functions. The Chief Executive of SWAP has previously referred to their role as being the "last line of defence" in assuring that our governance arrangements are effective and adhered to.

At the end of the Audit Plan, in addition to individual audit reports, we will receive an overall Annual Report and Opinion that will be a key source of information in our published Annual Governance Statement.

- 3.3.** "Best practice" also states that an appropriate Committee scrutinises and approves the internal audit plan, and reviews and approves the Charter annually.
- 3.4.** As part of the recent Medium Term Financial Planning round, the number of audit days that are available for the Internal Audit Plan has been cut from 1,533 days to 1,400 for 2017/2018. This reduction was brought to the Audit Committee meeting of September 2016, and possible ways for this to be achieved were put forward. Our planning principles are set out below, as a reminder to members of our risk-based approach to utilising our days.

Members may recall that this is the second time that the number of audit days has been reduced, as prior to 2015/2016 there were 1,701 days available to us.

The Chief Executive of SWAP has confirmed that a reduction of this level would not compromise SWAP's ability to carry out its statutory role, and would still allow the internal auditor give a formal opinion as usual on our system of internal controls.

It is worth remembering however, that this does not preclude, (in any way), the County Council from asking SWAP to undertake further work, such as grant claims and advice, which could be treated as a chargeable service outside the Audit Plan itself. Nor would this preclude officers from commissioning urgent work from SWAP, if we need specialist assistance, e.g. any fraud or corruption investigation.

The day rate from SWAP to SCC will rise slightly from £244 to £250 per day. There is a mechanism agreed by SWAP partners to ensure that it can always cover its corporate overheads as a limited company, which means a slight deterioration in the SCC rate as a result.

The last comparison that we have is the CIPFA Benchmarking Club average from 2015/2016 at £319 per day. So the daily rate remains significantly below this level.

- 3.5.** Best practice for internal audit plans is that they concentrate on the highest risks that a local authority faces at any given time, and there are a number of generally acknowledged factors to consider in setting an internal audit plan.

Amongst these, in particular for Somerset, are such key audit risks as:-

- An organisation's risk management framework.
- The level of transformational change being undertaken.
- The level of commissioning that is undertaken.
- Informational governance and IT risks.

3.6. There is always a need for flexibility within our Plan:-

- i) Some service areas report concerns during the year that require audit support as a matter of priority. Often, these are requests for assistance from the Senior Leadership Team.
- ii) Some audits become unnecessary because another agency is undertaking similar work in the service area, and we can place reliance on their reporting without committing SWAP resources.
- iii) Some audits become untimely and need to be moved around the Plan – either delaying them until new processes or IT systems are installed.
- iv) SWAP has been asked on occasion to support our anti-fraud work, where we need specialist support for investigations.

Should an audit be undeliverable for any acceptable reason, a number of “reserve” audits have already been identified and are regularly reviewed that can be substituted into the Plan. This is our normal approach with SWAP.

The Strategic Manager – Financial Governance has delegated authority to amend the programme at the individual audit level, and any changes to the Plan are reported at the next quarterly Audit Committee.

3.7. The Charter sets out the responsibilities between auditors and management, to ensure that the audit work can be provided effectively and efficiently.

It is worth remembering that the Charter also still gives the Internal Auditor absolute and unequivocal rights of reporting access to wherever in the organisation he deems appropriate given the nature of whatever the audit work reveals.

There are no changes to the Charter proposed for 2017/2018 as both officers and SWAP believe that it fully meets the expected public sector audit standards for internal audit work.

As was discussed at the Audit Committee meeting in January, when the update on the Audit Plan was presented, officers have not always been suitably responsive in clienting the audits, resulting the delays and lost time for SWAP. In 2016/2017, this has cost approximately 20 audit days.

In an attempt to prevent this reoccurring in 2017/2018, I meet with the SWAP team to understand where such blockages are occurring and why. This has resulted in the paper attached as Appendix C, with a clearly escalating process to ensure support.

3.8. The overall planning approach to the Internal Audit Plan remains similar to previous years, in that officers propose to :-

- Remove “more of the same” audits from 2017/2018 Plan – where we have previous “Substantial Assurance” from SWAP about the controls in place; we will place reliance on that opinion.
- Target more resource towards specialist IT audit work, particularly in light of many of the “Partials” that Audit Committee has seen recently. (The 10% included in the Plan is the most we can include).
- Target more resources to areas going through major changes in terms of service delivery and structure.
- Target more resources towards larger areas of expenditure within SCC, particularly where they are under significant demographic and budgetary pressures.
- Increase the level of work around fraud and governance in line with previous audit reports on these areas.
- Acknowledge that Grant Thornton will still take assurance from good Internal Audit, but not place reliance on their work and reduce audits in financial systems audit accordingly (where we have had recent “substantial” previous assurance, as above).
- Continue the relationship between Internal Audit resources and Risk Management, with close monitoring of risks through JCAD and management reporting back to Audit Committee following any Partial audits.
- Have enough resources set aside for Follow Up audits to ensure that management actions are completed, in order to provide the Audit Committee with the necessary assurance. (This has become quite critical given the strong approach taken by the Audit Committee on Partials).
- Not to audit areas where others are already providing both good governance and good assurance, such as capital accounting.
- Maintain and review an active “reserve” list throughout the year to allow the Plan to be flexible as necessary.
- Where possible, to require services who are receiving grants and where the grant needs auditing to pay SWAP directly for the work outside the Audit Plan. (This was agreed as an approach by the Audit Committee when the reduction in days was discussed. It was felt that the service receiving the benefit should pay and that many grants allow for audit costs).
- To incorporate directions from Audit Committee that have arisen from the review of Partials or other agenda items, such as Early Years days re-instated in 2017/2018.
- To reduce non-opinion work and concentrate on work that supports the Annual Opinion and risk management approach.
- To use the Healthy Organisation report commissioned from SWAP in 2016/2017 as a key source for audit areas for 2017/2018.

4. Consultations undertaken

- 4.1. Our SWAP audit lead has spoken to key senior officers on a 1-2-1 basis about what they would want to see in the Audit Plan, including looking at forthcoming legislative and service provision changes that will affect the controls. The Internal Audit Plan now includes a column that notes the audit proposer. Once the Plan is approved, there will also be a nominated Strategic or Service Manager who will be responsible for clienting the audit.

5. Implications

- 5.1. Once the plan has been approved, the Audit Committee will continue to monitor delivery of the Internal Audit Plan as currently, and to review the audit report recommendations, as it has done to date, to ensure that it is delivered to the appropriate standards.

6. Background papers

- 6.1. Previous SWAP reports to Audit Committee.

Note For sight of individual background papers please contact the report author