

Audit Committee

Item No.....

Report title:	Norfolk Audit Services Annual Internal Audit Report 2017-18
Date of meeting:	19 April 2018
Responsible Chief Officer:	Executive Director of Finance and Commercial Services
Strategic impact The Audit Committee provide proactive leadership and direction on audit governance and risk management issues, in accordance with their terms of reference which are part of the Council's Constitution, part 4.1 (4.4) (page 13) being: B. INTERNAL AUDIT AND INTERNAL CONTROL 1. With Chief Officers, to provide proactive leadership and direction on audit governance issues and champion audit and internal control throughout the Council. C. RISK MANAGEMENT 5. Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk.	

Executive summary

This Annual Report, for 2017-18, demonstrates how Internal Audit has sought, 'To enhance and protect organisational value for the Council, by providing risk based and objective assurance, advice and insight', as defined in best practice.

Norfolk Audit Services fulfils the internal audit function for the Council as required by its [Terms of Reference](#) and its [Strategy](#). Our terms of reference had a full refresh following the latest publication of the UK Public Sector Internal Audit Standards (March 2017) and was agreed at the June 2017 Committee. Our Terms of Reference has been refreshed (annual update) and is included separately on this agenda for approval. Our internal Audit Strategy is approved by this committee in January each year. The agreed audit plan for 2017-18 was closely linked to the then Council priorities and internal audit work made a significant contribution, being:

- Through a mix of risk based, funded and traded audits throughout the year we have used our experience and skills to drive up the standards of financial and risk management in 16 Norfolk schools and early years' settings thus promoting excellence in education. In addition to these two thematic audits (school website compliance and procurement cards) were performed across 25 schools and an audit of support to early years settings was performed.
- fully supporting by undertaking the Audit Authority role the 338m Euro France Channel England Interreg VA Programme. We have also audited the 16-19 Funding.
- Audits relating the improved infrastructure included; Northern Distributor Road – Contract Monitoring, Street lighting PFI – Contract Monitoring, providing the audit certification for the Council's Better Broadband for Norfolk (BBfN) which is bringing faster Broadband to far more people, Local Flood Strategy, Routine Highways Maintenance, ICT Change Management and a Cyber Security follow up audit

- Audits that gave assurance that the Council is supporting vulnerable people included; Contract monitoring of Norse Care, National minimum wage audits, a Family Focus Data Quality audit, certifying the Council's Troubled Families Programme returns throughout the year, and an audit of Equal Lives Financial and Governance Arrangements

The Council's Medium-Term Strategy and Financial Plan, adopted in February 2018 provides council-wide priorities and these have been developed into some clear outcomes and measures by officers and members. Audit work for the second half of the year was mindful of the new set of priorities and the [audit plan for 2018-19](#) (page 113), approved by this Committee in January this year, supports these new priorities.

The Audit Committee is recommended to:

Consider and comment on these key messages from the Annual Report 2017-18 (Appendix A):

- The overall opinion on the effectiveness of risk management and internal control for 2017-18 is 'Acceptable' and therefore considered 'Sound' (part 2 of the report)
- The internal audit function has enhanced and protected organisational value for the Council, by providing risk based and objective assurance, advice and insight; and fulfilled its Terms of Reference, Strategy through its delivery of the Committee's approved revised Internal Audit Plan for 2017-18, including traded schools audits and grant certifications and unplanned audits (part 4 of the report)
- Work is continuing to manage performance and the cost of audit assignments as part of the Council's new ways of working (part 6 of the report)
- The work of Norfolk Audit Services for the year (part 7 of the report) and the assurance provided, assists the Committee to reasonably assess the risk that the Financial Statements are not materially mis-stated due to fraud
- The Annual Governance Statement for 2017-18 will refer to this report and will be reported to this Committee in July 2018 for its approval
- The Internal Audit Function continues to comply with the Accounts and Audit Regulations 2015 and recognised standards, including the United Kingdom Public Sector Internal Audit Standard (UKPSIAS) (part 8 of the report).

1. Proposal (or options)

- 1.1 The key messages and recommendation are covered in the Executive Summary above.

2. Evidence

- 2.1 The Chief Internal Auditor's Annual Internal Audit report 2017-18 is presented at **Appendix A**.
- 2.2 The internal audit function has enhanced and protected organisational value for the Council, by providing risk based and objective assurance, advice and insight and fulfilled its Terms of Reference, Strategy through its delivery of the Committee's approved revised Internal Audit Plan for 2017-18, including traded schools audits and grant certifications and unplanned audits (part 4 of the report) and has had no exceptions reported from the External Auditor.
- 2.3 The Internal Audit work for the Norfolk Pension Fund is reported separately to the Pensions Committee.

3. Financial Implications

Internal Audit's work provides assurance on the systems and internal controls that manage £1.405bn of Gross Revenue expenditure, £145m Capital programme and £977mm of Assets.

Norfolk Audit Services has delivered audit services during 2017-18 by adhering to the planned budget and preparing the 2018-19 audit plan in line with the planned budget.

All standard audits were allocated a budget (£) which is formally monitored at draft and final report stages. For audits at final report stage, 59% (46% 2016-17) were delivered within the agreed cash budget. This is a 13% increase on last year and we continue to develop our working ways to strengthen the meeting of this KPI.

4. Issues, risks and innovation

- 4.1 During 2017-18 the Internal Audit team undertook and managed unplanned work (in addition to planned work) relating to maintained schools, NDR contract monitoring, Street Lighting PFI, Public Health grant, and Equal Lives. We also supported preparations for the General Data Protection Regulation which comes into effect 25 May 2018.
- 4.3 Staff turnover during the year has been managed. Importantly, we appointed an additional Principal Client Manager at professional level together with an Investigative Auditor. Both posts made a significant impact on the delivery of our planned and unplanned work during the year. The use of temporary staff was minimal during the year as our preference was to use the mixed economy model of an external contractor (BDO or Grant Thornton).
- 4.4 There are no implications with respect to:
 - Other resource implications (staff, property)
 - Legal implications
 - Risks
 - Equality
 - Human rights implications
 - Environmental implications
 - Health and safety issues.

5. Background

The Council has to undertake sufficient audit coverage to comply with the Accounts and Audit Regulations 2015. The allocation of audit time was based upon a risk assessment and this is continuously reviewed throughout the year. Resources were considered adequate to inform the annual audit opinion.

Background papers

- [2017-18 Audit Committee Audit Plan \(See Agenda, Page 79\)](#)
- [2017-18 Revised Internal Audit Plan \(See Page 367\)](#)

3 Officer Contact

If you have any questions about matters contained or want to see copies of any assessments, e.g. equality impact assessment, please get in touch with:

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If you need this report in large print, audio, Braille, alternative format or in a different language please contact 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.

**Annual Internal Audit Report
2017-18**

**Chief Internal Auditor
Norfolk Audit Services**

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Appendix 1 – Internal Audit Work Summary 2017-18

Appendix 2 – Planned developments results, NAS KPI's

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1. The Council's Priorities

1.1 The internal audit function has enhanced and protected organisational value for the Council, by providing risk based and objective assurance, advice and insight and fulfilling its Terms of Reference, Strategy and through its delivery of the Committee's approved revised Internal Audit Plan for 2017-18, including traded schools audits and grant certifications and unplanned audits (part 4 of the report). as defined by best practice. The Council's Medium-Term Strategy and Financial Plan, adopted in February 2018 provides council-wide priorities and these have been developed into some clear outcomes and measures by officers and members. Audit work for the second half of the year was mindful of the new set of priorities and the [audit plan for 2018-19](#) (page 113), approved by this Committee in January this year, supports these new priorities. Internal Audit's work during 2017-187 has made a significant contribution to the Council's then priorities, being:

- Audits of Children's Services maintained schools Website compliance and Procurement Cards (thematic audits) during quarters three and four were performed across 25 schools thus promoting excellence in education and an audit of support to early years settings was performed. While value for money in schools is judged by educational attainment, good financial management and governance of schools is a foundation to ensuring children and young people's right to an excellent education. We have used our experience and skills to drive up the standards of financial and risk management in 16 Norfolk schools and early years' settings through our traded audits and 25 schools through our thematic audits (pupil premium and information security and data protection).
 - fully supporting by undertaking the Audit Authority role the 338m Euro France Channel England Interreg VA Programme. The Technical Assistance funding for this role will bring in significant external funding into the Council over the next eight years and auditing the 16-19 Funding for learning during quarter four
 - Audits relating the improved infrastructure included; Northern Distributor Road – Contract Monitoring, Street lighting PFI – Contract Monitoring, Providing the audit certification for the Council's Better Broadband for Norfolk (BBfN) which is bringing faster Broadband to far more people, Local Flood Strategy, Routine Highways Maintenance, ICT Change Management and a Cyber Security follow up audit
 - Audits providing assurance on how the Council supports vulnerable people included; Contract monitoring of NorseCare, National minimum wage audits, a Family Focus Data Quality audit, certifying the Council's Troubled Families Programme returns throughout the year, and an Equal Lives Financial and Governance Arrangements audit
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2 Introduction and Audit Opinion

2.1 This report supports the Council's Annual Governance Statement 2017-18 with an assurance opinion on the Council's system of internal control, which includes the arrangements for the management of risk. This report also helps the Audit Committee to assess the performance of Norfolk Audit Services (NAS) and informs Executive Directors, clients and staff of how we delivered our mission, Terms of Reference, Strategy and our work and how we add value. This report should be read in conjunction with the Annual Risk Management report for 2017-18, also reported to the April 2018 Audit Committee. This report brings together and adds to, the results reported periodically to the Audit Committee and includes:

- An overall acceptable opinion - (see part 2.3)
- Key Messages – including an external review of our compliance with PSIAS (see part 3)
- Our outputs - the work we carried out, taking the service forward, performance and the difference we made in 2017-18 (see part 4)
- The External Auditor's value for Money Assessment (part 5)
- Developments in the Service and ways of working, including management of Whistleblowing (see part 6)
- Responsibilities in relation to fraud and corruption (see part 7)
- Other relevant information (see part 8 onwards).

In addition to the Internal Audit Team the Chief Internal Auditor also holds responsibility for:

- The Head of the France Channel England Audit Authority – via the Audit Authority team
- Corporate Risk Management – via the Risk Management Officer
- Whistleblowing Management – via the Investigative Auditor

These complementary functions are subject to appropriate review to ensure independence.

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2.2 Audit Opinion

- 2.3 The Executive Director of Finance and Commercial Services and the Audit Committee can be assured that **the adequacy and effectiveness of the system of internal control including risk management for the Council is 'Acceptable' and is therefore considered 'sound'**. The Terms of Reference, Strategy were fulfilled and sufficient audits were performed and reported during 2017-18 to support this opinion. Details of our performance appear in part 4 and Appendices 1 and 2.
- 2.4 The Council's system of internal audit during 2017-18 was sound, adequate and effective in accordance with the requirements of the Accounts and Audit (England) Regulations 2015. Details of the regulations and the approach taken are provided in Appendix 3 (at TN5 and TN6). The external review of compliance with the PSIAS performed in May 2017 identified, 'no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. The section takes a risk approach to its audit work but the focus is on operational risks rather than more strategic risks and risk identification could be more thoughtful.' Since the publication of the results of the external review we have strengthened our risk approach to our work and strengthened the work of the team through new ways of working.
- 2.5 Our work considers the Council's Risk Management arrangements which are reported to the Audit Committee by the Risk Management Officer and the Chief Internal Auditor. The Council's Risk Management arrangements are considered acceptable, as reported in the Annual Risk Management Report for 2017-18 and fall under the responsibility of the Chief Internal Auditor.
- 2.6 The team has an Investigative Auditor who assists with the management of Whistleblowing cases. The Council has a Whistleblowing Policy and Procedure and the Chief Internal Auditor is responsible for overseeing the management of the cases. The Council's Whistleblowing arrangements are considered acceptable.
- 2.7 There are no key governance issues that need to be addressed, against the background of this annual report. The Annual Governance Statement will be published by 30 June 2018 in draft and will be presented to this Committee in July 2018.

3 Key Messages

- 3.1 The key messages from the internal audit work in 2017-18 are:
- The internal audit team have focussed on their mission, as described by relevant standards (see paragraph 1,1), during the year. The overall opinion on the effectiveness of risk management and internal control for 2017-18 is 'Acceptable' and therefore considered 'Sound' (part 2 of report)
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- The team has sufficiently delivered the audit plan for 2017-18 to support the annual audit opinion. The original audit plan included 768 opinion days and the September refresh of the audit plan against resources resulted in a reduction to 706 opinion days. This reduction was largely due to an increase in the number of grant certification claims required which took days away from our opinion work.
 - The internal Audit Team has fulfilled its [Terms of Reference \(see Agenda, page 146\)](#), [Strategy \(see Agenda, page 114\)](#) and fully supported the Council's Audit Committee and has had no exceptions reported from the External Auditor.
 - Resources were strengthened in year at professional level. We have appointed a permanent full time Investigative Auditor a new Principal Client Manager post to strengthen and enhance strategic analytical and core business skills and to lead on the development of these skills within our current team. This is all contained within our current agreed budget. An Auditor left post and has been replaced with an Audit Assistant.
 - The team has met the required savings during the year by operating within the approved budget, team structure, organisational developments and put in place further efficiencies. Cost control is operating through cash budgets for audits during the year.
 - We commissioned an independent review from CIPFA of our compliance with the PSIAS (part 8 of the report) and the review was performed early May 2017. The review identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. Some recommendations to further strengthen some areas were made and we have implemented these. NAS have a quality assurance improvement programme and this was adhered to during 2017-18. The next round of internal quality assurance reviews of audit files is due in the Spring /early Summer 2018, the results of which will be shared with the Executive Director of Finance and Commercial Services and the to this committee via our quarterly reporting.
 - There are adequate Anti-Fraud and Corruption controls in place and an update on Anti-Fraud and Corruption has been reported to the Audit Committee during the year. A single Anti-Fraud, Bribery and Corruption policy has been developed to codify the anti-crime arrangements that are in place at the Council. In addition to the policy and strategy, an annual activity plan has been developed and agreed to direct the proactive counter fraud work undertaken.
 - In March 2018 a new Fraud and Bribery E-Learning training course was developed and made available for staff to complete via the Council's online training programme. The course has been designed to provide awareness and understanding of the Fraud Act 2006, the Bribery Act 2010, and to promote the appropriate reporting lines for concerns to be raised in accordance with the councils updated Anti-Fraud, Bribery and Corruption policy. The course is being actively promoted to key staff as a requirement and, at the time of reporting, two Departments have made the training a requirement for all their staff.
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- Our work assists the Committee to reasonably assess the risk that the financial statements are not materially mis-stated due to fraud (part 7 of the report)
- Work is continuing to manage performance and the cost of the audit assignments (part 6 of the report)
- The Annual Governance Statement for 2017-18 will make reference to this report and will be reported to this Committee in July 2018 for its approval (part 8 of the report)
- Our work has contributed to raising £91,331 of external income through grant certifications, FCE Audit Authority, traded schools audits and external clients
- The Internal Audit Service continues to be developed to support the Council's Priorities. Our audit plan is aligned to these priorities and the corporate risk register. We have a well-developed mixed economy delivery model which enables us to draw on wider resources and be more resilient to meeting unplanned needs.

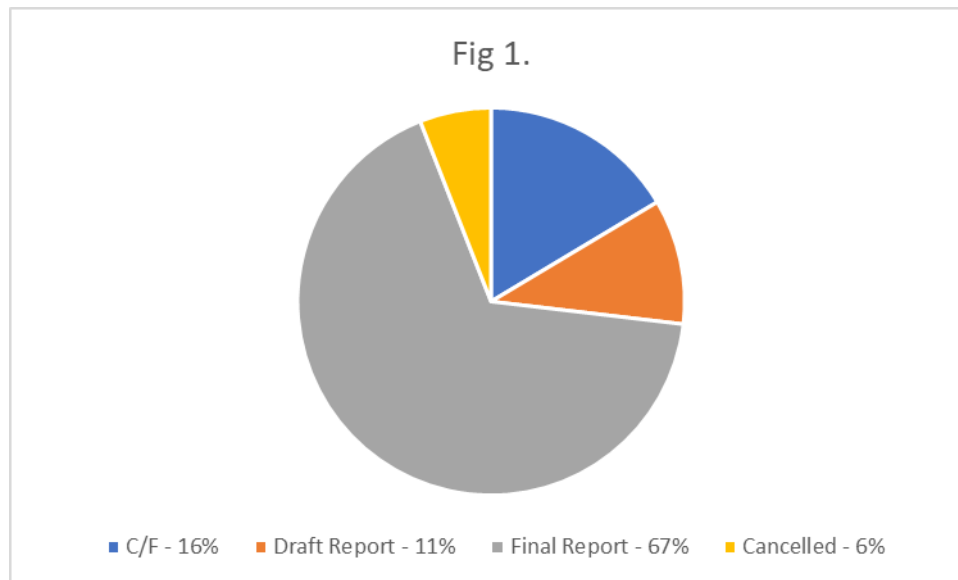
4 Our Outputs - Internal Audit

- 4.1 The Internal Audit Terms of Reference and Strategy (see 3.1), agreed at the Audit Committee in January 2016, and the refresh agreed at Audit Committee in June 2017 have been fulfilled during 2017-18. The Internal Audit Terms of Reference and Strategy were due to be refreshed and agreed at the Audit Committee in January 2017, however that work was put on hold until the new PSIAS came into force with effect April 2017. This refresh happened and the revised Internal Audit Terms of Reference and Strategy was presented to Audit Committee in June 2017.
- 4.2 The internal audit work was performed through the delivery of the Annual Internal Audit Plan 2017-18. The Audit Committee approved the first half at the start of the audit year on [26 January 2017](#) and the second half on [21 September 2017](#) (see Agenda, page 367).
- 4.3 During the year it was appropriate to add some topics to the plan and to remove others. The details of these changes were reported to the Audit Committee as part of the quarterly updates. We reported a revised audit plan during our [September 2017 Committee reporting](#), the overall opinion days reduced by 62 days. The main changes were the topics of coverage which were determined and agreed on a risk assessed basis. Based on the revised audit plan for 2017-18, the target for final and draft reports for the audit of new topics within the plan at year end were 20 and 7 respectively. The actual number of reports issued for new topics were 24 and 6 respectively (**Figure 2** below). In addition to this, the target to complete carried forward work was 100%. There were two such audits, one where fieldwork was completed during the year the other had a draft report.
- 4.4 A summary of the work for 2017-18 is attached as **Appendix 1**.
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- 4.5 The majority (86%) of the audit plan was delivered at either final or draft report at the end of the audit year. This includes our work on non-schools, funded schools, traded schools and grants. The proportion of reports that were either final, draft or work in progress is shown in the pie chart at **Figure 1** below.

Figure 1: Outputs in 2017-18 by share; Finals, Drafts, Carried Forward (C/F) and Cancelled.

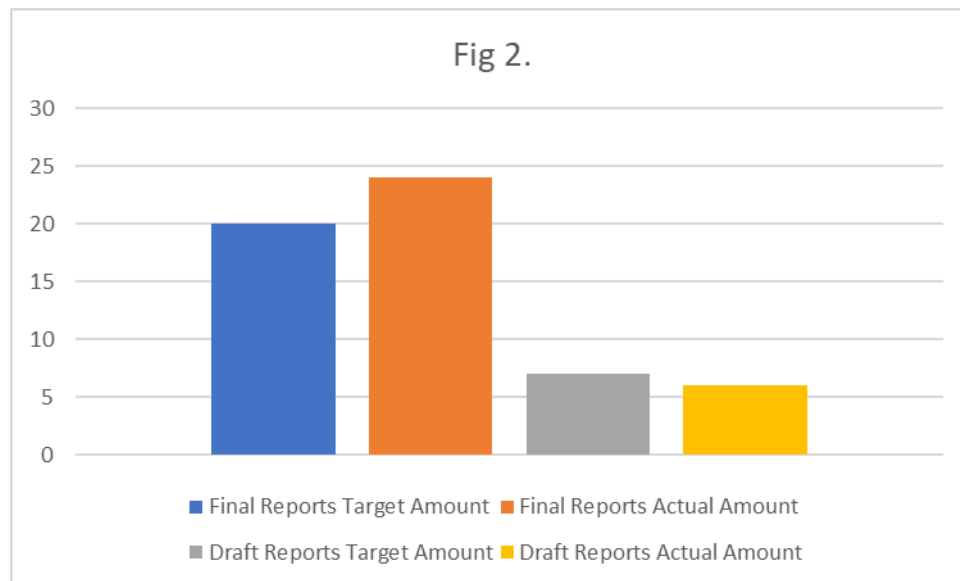


- 4.6 For the Non-school audits, including those carried forward from 2016-17, 78% of audits were completed at draft and final reports at year end. The remaining audits were 'work in progress' or carried forward at year end. The five works in progress and six carried forward audits are planned to be finalised by 30 September 2018. The number of carried forward audit has significantly reduced (2017-18 was 28), mainly due to strengthening professional staffing levels within the team and new ways of working. The audit plan for the first half of 2018-19 agreed by [Audit Committee in January 2018](#) included 100 days to complete carried forward work based on the time needed in 2016-17. The time allowed to complete the actual four carried forward audits and to finalise the audits currently at draft report stage will be reassessed and the plan will be adjusted when the second half of the year's audit plan is presented to Audit Committee in July 2018.
- 4.7 We completed and reported on 95% of the planned school audits. The one carried forward school audit was delayed due to recent severe weather and has been rescheduled for April 2018.
- 4.8 We delivered 19 traded school audits during the year. More schools are academising and they continue to face financial pressures. The traded service is now embedded but still needs termly proactive promotion to those schools next due an audit. We are also developing a new schools traded offering that supports anti-fraud and corruption which will be offered during 2018-19.
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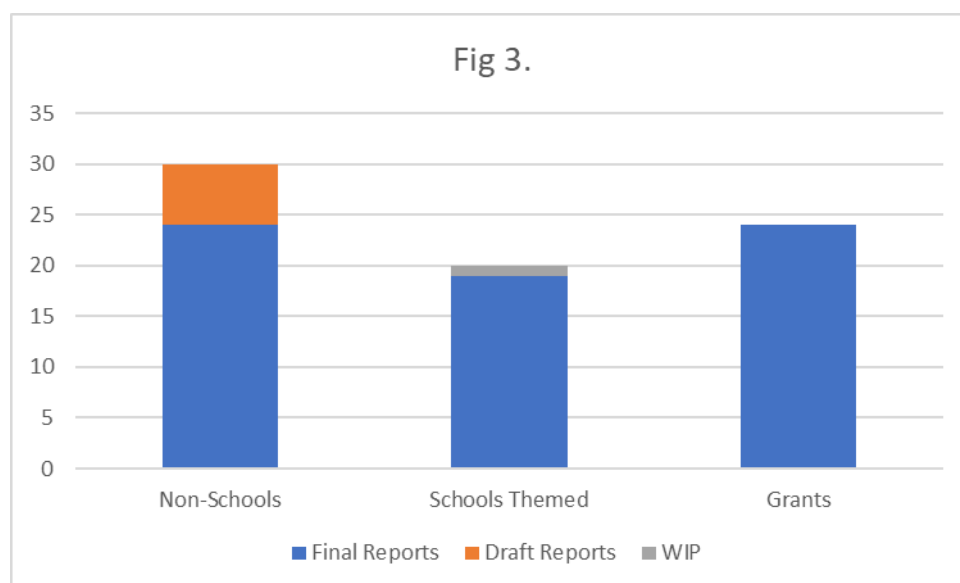
- 4.9 All of the required grant certification work was completed during the year with 24 grants issued as final (100%). The work has been completed on the final claim and is awaiting sign off.
- 4.10 Based on the revised days for 2017-18, the target for new audit opinion work final and draft reports for the audit at year end were 20 and 7 respectively. The actual number of reports issued were 24 and 6 respectively, as shown in **Figure 2** below.

Figure 2: Final and Draft reports issued 2017-18 against target (new opinion work)



- 4.11 The overall share of completed work between all the categories is shown in **Figure 3** below.

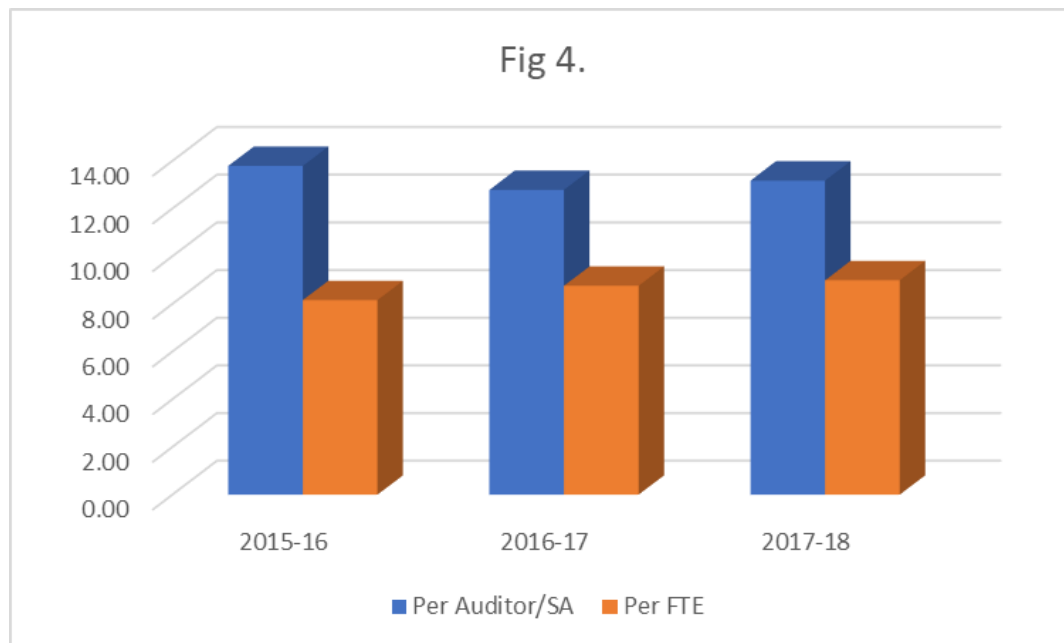
Figure 3: Completion of work by category 2017-18



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- 4.12 To compare the performance between the two years the indicator of the number of reports per full time equivalent auditor in the team was calculated. The results, shown at **Figure 4** below, demonstrate that the performance was comparable between the two years.

Figure 4: Reports per FTE 2015-16, 2016-17 and 2017-18



- 4.11 In addition to the work set out in the Internal Audit Strategy the team completed other adhoc work as follows:
- Advice reports for Executive Director of Finance and Commercial Services
 - Closer monitoring and reporting of progress on actions taken to address Corporate High Priority Findings identified by detailed audit work
 - Preliminary assessments for potential investigations of allegations regarding potential financial or internal control matters and undertaking investigative work
 - The Internal Audit Team have embraced the Council's 'New Ways of Working', which have been implemented and measured through staff appraisals.
- 4.12 We no longer participate in the CIPFA Audit benchmarking as only two County Councils participated in the exercise for 2016/17. Low participation has an impact on the usefulness of comparative information so it was considered not to be a cost effective form of benchmarking at this point in time. Any update on this will be reported to the Audit Committee during our quarterly reporting. Previous
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benchmarking of the internal audit function has shown that we perform well and that we provide value for money.

- 4.13 During the year we have continued to work with colleagues in the Managing Director's Department – Intelligence and Analytics and the Strategy and Delivery Unit and provide advice, support and challenge in order to seek assurance on the continued good governance, internal controls and risk management of services that are subject to organisational change. If any exceptions are reported or we are requested by Executive Directors we will consider if more detailed audit work is required. None was required in 2017-18. The key projects are supported and closely monitored by the relevant Finance Business Partners reporting to the Executive Director of Finance and Commercial Services.
 - 4.14 During the year we undertook and managed unplanned work in relation to Equal Lives, Street Lighting PFI and Contract Monitoring.
 - 4.15 Throughout the year, Norfolk Audit Services has provided continued and robust support to Project Managers of European grants and ensured compliance to the rules for all our grants work (first level control audit).
 - 4.16 Our Quarterly Reporting to the Audit Committee has included updates on the delivery of the France Channel England Interreg Programme - Audit Authority (AA) function being satisfactory. In February 2018, the Audit Authority has submitted (on time) its first Annual Control Report providing a summary of the work undertaken and the analysis of the findings from this work. The European Commission will review this Annual Control Report and assess the adequacy of the work by the AA on the basis of its content. The AA is satisfied that it had undertaken and completed all the work necessary to draw an Annual Opinion on the controls in place for the delivery of the France Channel England Interreg Programme and on the regularity of expenditure declared. All the audit work has been delivered from within existing resources.
 - 4.17 The AA's opinion was not qualified. The review of detailed expenditure identified the need for financial corrections. The total amount represented 0.05% of the total expenditure audited, which confirms that good controls are in place within the Managing Authority (the unit in charge of delivering the programme).
 - 4.18 In January 2018, Norfolk Audit Services has also been successful in appointing a dedicated auditor for the work to be completed as the volume of work is now increasing and requiring additional resources.
 - 4.19 Our audit strategy was refreshed in January 2018 and endorsed by the Consultative Audit Group (with representatives from both Member States). As part of this process, we have reconsidered our Terms of Reference and did not identify the need for any changes.
 - 4.20 The claim for reimbursement submitted by the AA to the Joint Secretariat in March 2017 (covering 1 January 2014 to 31 December 2016) is awaiting verifications by the Managing Authority. A second claim for reimbursement was submitted to the JS, covering the period 1 January 2017 to 30 September 2017. Going forward, the AA has been asked to submit an annual claim in October each year.
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- 4.21 In accordance with the Council's Whistleblowing Policy and procedures from January 2017 the Chief Internal Auditor now maintains a record of any disclosures and arranges appropriate investigation of any allegations. There have been four such disclosures made since January 2017. One has been completed and three are in progress.

5 Value for Money Assessment

- 5.1 Our external auditors are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as their value for money conclusion. Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise our arrangements to:

- Take informed decisions
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties

- 5.2 The Council received an unqualified value for money assessment (including for the work of internal audit) for 2016-17. The next assessment, for 2017-18, is due in July 2018.

6 Developments in the Service

- 6.1 In line with continuing to develop our services, the team has a KPI dashboard which is used to monitor delivery against agreed targets. **Table 2** below shows those areas rated as either amber or red that need further development work which is being managed. There have been staff changes in year, the use of temporary staff and a vacancy for six months at professional level. The resources situation within the team have been reported to the Committee in year through our quarterly reporting. It is expected that with the new staff and ways of working the status will return to green during 2018-19.

Table 2: KPI dashboard further development areas as 31 March 2017

KPI development Area 2017-18	Result for 2017-18
Delivery of all planned audits with (draft of final) reports	Green
Draft reports issued within 10 days of fieldwork completion	Amber
Audits delivered within £ budget	Red

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7 Responsibilities in relation to Fraud and Corruption

- 7.1 Under section 17 of the Crime and Disorder Act (1998) the Council has a statutory general duty to take account of the crime and disorder implications of all of its work, and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 7.2 Internal Audit work helps to deter crime, or increase the likelihood of detection by making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime. Internal audit's work is planned in order to cover the higher risk areas including where weaknesses in controls might increase the risk of theft, fraud or corruption. An action plan is agreed for any weaknesses that are identified during audits, including those where they increase the risk of fraud.
- 7.3 A new Investigative Auditor role has been established during the year and this is having a significant and positive impact on Anti-Fraud and Corruption activity.
- 7.4 The [Anti Fraud and Corruption Strategy](#) (page 451) was updated and revised in September 2017. A new e-learning course is available and promoted to all Members and staff of the Council. The latest (January 2018) [Anti-Fraud and Corruption Update](#) (See Agenda, item 9) details the communications plan which has been put in place to intensify the promotion and uptake of these courses. Expectations continue to rise and further strengthening of controls continues. There were two formal investigations requested from Norfolk Audit Services during the year. An action plan has been agreed to continue the ongoing development of a strong anti-fraud culture within the Council. The Council meets the requirements of the International Standard on Auditing (ISA 240) as described in the notes in Appendix 2 (TN 7).
- 7.4 The Council had no significant cases of detected fraud during 2017-18. Detected fraud is defined as where an investigation of an allegation has assessed that, on the balance of probability, there was misconduct that led to an action by management, possibly including recovery of loss, disciplinary action or a prosecution.

8 Other relevant information

Chargeable work

- 8.1 Our chargeable work continues to make a positive contribution to the Council generating £91,331 in 2017-18 which adds 19% to the net expenditure budget of the function.
- 8.2 Internal Audit carried out chargeable work for the Norfolk Pension Fund and Eastern Inshore Fisheries and Conservation Authority (EIFCA). This work makes a contribution to reduce the net cost of internal audit to the Council and allows internal audit staff to continue to develop valuable skills and build on experience.
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- 8.3 Internal Audit also undertakes and charges for work on the Certification of Grant Claims including many that are EC sponsored.
- 8.4 Work continued during 2017-18 on the Audit Authority role to support the management of the FCE EU funded programme by Norfolk County Council. This work is funded through the aforementioned programme, and is expected to support future savings and efficiencies in the Internal Audit budget.
- 8.5 We have continued to promote our traded services to schools and have delivered traded audits to 15 schools through a combination of full audits and health checks.

Quality Assurance

- 8.6 A Quality Strategy for Internal Audit is in place, which includes a Quality Assurance Improvement Programme. This was used to review samples of completed audit projects during the year to ensure they met quality standards. Internal Audit procedures are subject to continuous review and are updated during the year. No significant exceptions were noted from that work. In May 2017 an external review was commissioned, in accordance with the regulations and the relevant standards. The review identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. Some recommendations to further strengthen some areas were made and agreed actions have been implemented.
- 8.7 Internal Audit reports progress on the audit plan and feedback from customer satisfaction questionnaires to the County Leadership Team and the Audit Committee quarterly. NAS has received overall positive feedback during the year ended 31 March 2018. An electronic Customer Satisfaction Questionnaire using Smart Survey is used for this purpose.

Engaging Specialists

- 8.8 During 2017-18, we have continued to engage specialists from external sources where we have not had the required expertise within the team. A Street Lighting PFI audit and Contract Monitoring of The Northern Distributor Route was delivered by External Contractors. This approach ensures that specialist audit areas receive high quality assurance whilst ensuring value for money.

Working with the External Auditors

- 8.9 The external auditors, Ernst and Young, are auditing the Council's Statement of Accounts for 2017-18. Internal Audit maintains a very good working relationship with the audit team at Ernst and Young and NAS work is planned and co-ordinated to ensure that there is:
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- no duplication of work
- not an undue “audit burden” on clients at any one time during the year, and
- an efficient “joint” assurance service to the Council.

8.10 Specific pieces of work were delivered by Norfolk Audit Services in the first quarter of 2017-18. This work supports our opinion on controls but also supports the additional work needed to support the external auditors’ audit methodology.

Annual Governance Statements

8.11 In addition to the Council's own Annual Governance Statement for 2017-18, to be reported to this Committee in July 2018, NAS internal audits provided assurances on the adequacy and effectiveness of internal controls and risk management for the NCC Pensions Committee, which supported their own governance reporting.

9 Acknowledgements

9.1 I would like to thank Members of the Audit Committee, County Leadership Team, managers and staff for their co-operation and assistance during the year.

9.2 The Internal Audit team has worked with the Council's managers and staff to deliver assurance on the adequacy of the Council's internal controls and risk management. The team's work has been acknowledged as meeting required standards and savings at a time when expectations of quality both internally and externally are rising. I would like once again to acknowledge the commitment, efforts and achievements of the team over the year.

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Internal Audit Work Summary 2017-18 (2016-17)

	Approved Plan (revised plan September 2017)	Net Additions/ Cancelled/ Postponed During Quarter 3&4	Revised plan	Final Reports Issued	Percentage Final	Draft Reports Issued	Total Reports Issued (draft and final)	Percentage Delivery of the revised 2017-18 (and c/f 2016-17) <u>draft and final</u>
2017-18 Audits in Approved Plan – Non Schools traded	41	3	44	19+6	55% (33%)	6	30	68% (51%)
Audits c/f 2016-17 non schools traded	28	-12	16	14	88%	1	15	94%
Total Audits – Non Schools	69	-9	60	39	65% (53%)	7	46	77% (67%)
Traded audits - 80 days were included in the strategy	16 + 4 C/fwd	0	20	19	95% (91%)	0	19	95% (97%)
Total excl. Grants	89	-9	80	58	73% (65%)	7	65	81% (76%)
Grant Certifications	24	0	24	24	100% (94%)	0	24	100% (94%)
Overall Total	113	-9	104	82	79% (69%)	7	89	86% (79%)
Audits c/f from 2017-18 – non-schools (5 work in progress, 6 at draft report and 6 c/fwd)	17							25%

Figures in brackets relate to 2016-17

Technical Notes:

TN1 Our service

NAS provides the internal audit service of the County Council to provide assurance to the Council, the Audit Committee, the Managing Director, the Executive Director of Finance and Commercial Services the Monitoring Officer and Executive Directors. Its role is to ensure that there is evidence of compliance with the Council's objectives, controls, rules and procedures. Where such compliance does not exist, internal audit makes recommendations to ensure that proper arrangements are in place. Some audits carried out are based on the perceived risk to the Council as assessed using the internal audit risk model, corporate and departmental risk registers and others are requested by Executive Directors or the Audit Committee. The scope of NAS's work also extends to partnership arrangements.

The Internal Audit team has provided an effective, efficient and economic service during the year, supporting the Audit Committee, the County Leadership Team (CLT) and their Services. The team has championed the strengthening of internal control and anti-fraud arrangements and provided advice and assurance.

TN 2 Opinion Definitions

Each report has one of two possible grades, which are set out in the table below:

Opinion	Assessment of internal control	Action required from the recipient – as agreed with the auditors
Acceptable	Few or no weaknesses, mostly insignificant	Remedial action required as risk assessed and agreed
Key issues that need to be addressed	A number of weaknesses, mostly significant or one or more major weaknesses	Remedial action required as risk assessed and agreed

TN 3 Corporate High Priority Findings reporting

As part of a drive to increase transparency and accountability, we have a process to follow up and report on corporately significant High Priority Audit Findings (CHPF). This includes reporting to CLT on all outstanding audit recommendations made as a result of “corporate high priority” findings from detailed audit reports, together with their completion target date and an update on current status (Green – Amber – Red rating). Completed recommendations are reported separately and approved for removal by CLT.

TN 4 Internal Audit Work

The work of NAS covers all areas of the Council’s activities and continues to evolve and improve. Audits are generally carried out based on the perceived risk to the Council as assessed using the NAS risk model, the corporate and departmental risk registers or, they may be requested by Executive Directors or the Audit Committee. Internal Audit uses every opportunity to promote best practice as identified through professional networks and from our audit findings.

TN 5 Review of the Effectiveness of Systems of Internal Control

The Accounts and Audit (England) Regulations 2015 (previously the Accounts and Audit Regulations 2011) require that:

- An adequate and effective internal audit of accounting records and of its system of internal control, in accordance with proper practices in relation to internal control, must be undertaken
- the effectiveness of the Council's systems of internal audit be reviewed annually.

The Committee made a resolution at its meeting on 26 September 2013 regarding that review. It was resolved that;

'the effectiveness of the management processes and corporate control functions being provided by self-assessment, customer feedback and any existing external performance reviews, including periodic independent assurance on the application of the relevant internal audit standards, thus developing the approach agreed in April 2007 and January 2009'.

For 2017-18 we commissioned an independent review of our compliance with the UKPSIAS which was undertaken during May 2017.

As part of the overall Good Governance Framework, the Executive Director of Finance and Commercial Services provides an annual opinion on the adequacy and effectiveness of the system of internal control including risk management. This informs the Council's reporting of the draft Annual Governance Statement 2017-18, which will be published with the draft Annual Statement of Accounts.

The Council's system of internal control and the assurance on their effectiveness is as follows:

- internal audit – the annual plan and work of internal audit*; and
- management processes of checking, reconciliations, supervisions and controls.

*The annual internal audit plan includes the Council's main systems, and different elements of each system on a rotational basis and our opinion on these is "Acceptable" (see Section 3 above). The results of internal audit work for 2017-18 have been summarised in Appendix 2 of this report.

The Chief Internal Auditor's overall audit opinion is based on work undertaken during the year. Opinion definitions are explained in the notes at Appendix 2 (at TN 2). During the 2017-18 year internal audit reported as follows:

- detailed reports to the relevant Executive Directors
 - reporting to County Leadership Team on corporate high priority findings from audits (Appendix 2 - TN3)
 - quarterly summary reports to County Leadership Team
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- quarterly reports to the Audit Committee and
- relevant topical reports to the Audit Committee as requested.

TN 6 The Council's Financial Statements and Fraud (ISA 240)

During the year internal audit have reviewed the internal controls and risk management of the Council's main financial systems. Those systems cover the transactions, balances and assets of the Council. That work and the assurance it provides helps this Committee to reasonably assess the risk that the Council's Financial Statements are not materially misstated due to fraud.

Internal Audit has planned and delivered audits during the year, which include reasonable measures to detect fraud and to give assurance on internal controls that would prevent it. Reports on the audit findings clearly set out those findings which increase the risk of fraud and whose responsibility it is to ensure that recommendations are completed.

The Council has an Anti-Fraud and Corruption Strategy, which covers the scope of this Committee. The Strategy has been applied where appropriate throughout the year and any significant fraud investigations have been reported where they have been completed. There have been a small number of preliminary assessments of allegations for the Council during the year. The Committee are therefore aware of the process for identifying and responding to the risks of fraud generally and of the specific risks of mis-statement in the financial statements when they are asked to approve the Annual Financial Statements at the end of the year.

Actual fraud cases that have been fully investigated are reported in summary to the Audit Committee. The Chairman would be informed of any significant fraud which had implications for this Committee. The Committee is therefore aware of the arrangements in place for Executive Directors to report fraud to the Committee. The Committee has knowledge of actual or suspected fraud and the actions that Chief Officers are taking to address it when required.

The Anti-Fraud and Corruption Strategy, Whistle blowing Strategy, Money Laundering Policy and the Standards of Conduct are promoted through staff newsletters and on the Council's Intranet site as well as through training for non-financial managers. The Committee is aware, through the reports it receives, of the arrangements Executive Directors have in place for communicating with employees, members, partners and stakeholders regarding ethical governance and standards of conduct and behaviour. The Council's Audit Committee has responsibility for reviewing the Anti-Fraud and Corruption arrangements. The Audit Committee approved a revised Anti-Fraud and Corruption Strategy in September 2017. This Committee also receives this Annual Internal Audit Report, Risk Management reports and other reports from the Audit Commission giving assurance on the adequacy and effectiveness of risk management an internal control, Anti-Fraud and Corruption measures and of the Council's governance and value for money

arrangements. These assurances support the Annual Governance Statement that this Committee considers and approves. The Committee therefore oversees management arrangements for identifying and responding to the risks of fraud and the establishment of internal control.
