

Audit Committee

Item No.....

Report title:	Norfolk Audit Services Annual Internal Audit Report 2016-17
Date of meeting:	15 June 2017
Responsible Chief Officer:	Executive Director of Finance and Commercial Services
Strategic impact The Audit Committee are responsible for monitoring the adequacy and effectiveness of the systems of risk management and internal control, including internal audit, as set out in its Terms of Reference, which is part of the Council's Constitution at part 4.1 (please click underlined text for links to the webpage).	

Executive summary

Best practice defines internal audit's mission as, 'To enhance and protect organisational value by providing risk based and objective assurance, advice and insight'.

Norfolk Audit Services fulfils the internal audit function for the Council as required by its Terms of Reference and its Strategy agreed at the January 2016 Committee and the relevant regulations. Our Terms of Reference has been revised to include updates from the Public Sector Internal Audit Standards that became effective from April 2017 and is included separately on this agenda for approval. Internal Audit's work has made a significant contribution to the Council's priorities, being:

Excellence in Education

- 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 31 Norfolk schools and early years' settings. In addition to this two thematic audits (pupil premium and information security and data protection) were performed across 18 schools.

Real Jobs

- 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

Improved Infrastructure

- providing the audit certification for the Council's Better Broadband for Norfolk (BBfN) which is bringing faster Broadband to far more people.
- Auditing Cyber Security arrangements

Supporting Vulnerable People

- auditing contract monitoring of non-NCC Children's homes, pupil premium audit, better care fund governance arrangements, and certifying the Council's Troubled Families Programme returns throughout the year

The Audit Committee is recommended to:

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

- The overall opinion on the effectiveness of risk management and internal control for 2016-17 is 'Acceptable' and therefore considered 'Sound' (part 2 of the report)
- The internal audit function has fulfilled its Terms of Reference, Strategy and provided assurance and added value through its delivery of the Committee's approved revised Internal Audit Plan for 2016-17, 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 (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 2016-17 will make reference to this report and will be reported to this Committee in September 2017 for its approval (part 8 of the report)
- 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). We commissioned an independent review from CIPFA of our compliance with the PSIAS (part 8 of the report). 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 are in the process of considering and implementing these. One change is a statement on the independence of internal audit, covered at part 8.6 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 2016-17 is presented at **Appendix A**.
- 2.2 The internal Audit Team has fulfilled its Terms of Reference, Strategy and fully supported the Council's Audit Committee 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 £1.383bn of Gross Revenue expenditure and £362m of Capital Programme Expenditure.

Norfolk Audit Services has delivered audit services during 2016-17 by adhering to the planned budget and preparing the 2017-18 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, 46% (67% 2015-16) were delivered within the agreed cash budget. There were a number of contributing factors to this reduction in the number of audits not being delivered within budget which included staff changes (3 new Auditors), use of temporary staff and a professional vacancy for half of the year. In addition we delivered a number of complex audits that required more time than planned. Work continues to be developed to strengthen the meeting of this KPI which is set at 100%.

4. Issues, risks and innovation

- 4.1 During 2016-17 the Internal Audit team undertook significant unplanned work (in addition to planned work) relating to the Council's County Farms service, demand led budgets, highways routine maintenance work and preparations for the Information Commissioners visit and audits supporting this.
- 4.3 Staff turnover during the year has been managed and additional temporary contracted audit resources were secured for part of the year. However the use of temporary contracted resource did add to the management overhead. We successfully recruited to our new Investigative Auditor post which commences in early June 2017.
- 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

- [2016-17 Audit Committee Audit Plan](#) (See Agenda, Page 114)
- [2016-17 Revised Internal Audit Plan](#) (See Page 275)

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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**Annual Internal Audit Report
2016-17**

**Chief Internal Auditor
Norfolk Audit Services**

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Appendix 1 – Internal Audit Work Summary 2016-17

Appendix 2 – Planned developments results, NAS KPI's

Appendix 3 – Technical Notes

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1. The Council's Priorities

- 1.1 Best practice defines internal audit's mission as, 'To enhance and protect organisational value by providing risk based and objective assurance, advice and insight'. Internal Audit's work has made a significant contribution to the Council's priorities, being:

Excellence in Education

- Auditing Children's Services pupil premium (thematic audit) during quarter three and four
- 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 31 Norfolk schools and early years' settings through our traded audits and 18 schools through our thematic audits (pupil premium and information security and data protection).

Real Jobs

- 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
- auditing the 16-19 Funding for learning during quarter four

Improved Infrastructure

- providing the audit certification for the Council's Better Broadband for Norfolk (BBfN) which is bringing faster Broadband to far more people. Our certification work and suggestions to make it more efficient have been commended by the Government's BDUK unit
- auditing ICT Cyber Security arrangements in quarter four
- auditing the CRC energy efficiency scheme during the first quarter
- auditing property security during quarter three

Supporting Vulnerable People

- contract monitoring of non-NCC Children's homes during quarter two
 - certifying the Council's Troubled Families Programme returns throughout the year
 - role of quality assurance (social care, Children's Services) during quarter three
 - Better Care Fund Governance arrangements during quarter two
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2 Introduction and Audit Opinion

2.1 This annual internal audit report 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 also supports the Council's Annual Governance Statement 2016-17 with an assurance on the Council's system of internal control, which includes the arrangements for the management of risk. This report should be read in conjunction with the Annual Risk Management report for 2016-17, reported to the June 2017 Audit Committee. This report brings together and adds to, the results reported quarterly to the Audit Committee and includes:

- An 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 2016-17 (see part 4)
- The External Auditor's value for Money Assessment (part 5)
- Developments in the Service (see part 6)
- Responsibilities in relation to fraud and corruption (see part 7)
- Other relevant information (see part 8 onwards).

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 2016-17 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 2016-17 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 review of compliance with the PSIAS 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.'

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- 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 2016-17 and fall under the responsibility of the Chief Internal Auditor.
- 2.6 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 2017 in draft and will be presented to this Committee in September 2017.

3 Key Messages

- 3.1 The key messages from the internal audit work in 2016-17 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 2016-17 is 'Acceptable' and therefore considered 'Sound' (part 2 of report)
 - The team has sufficiently delivered the audit plan for 2016-17 to support the annual audit opinion. The original audit plan included 709 opinion days and the September refresh of the audit plan against resources resulted in no change to those audit opinion days.
 - 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 significantly impacted and managed during the year by the management of vacancies through our contractor or temporary staff. We also appointed 3 new Auditors who have all attended the CIPFA introduction to Audit Training. We have appointed a permanent full time Investigative Auditor at professional level (commences June 2017) and have approval to appoint 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.
 - 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
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recommendations to further strengthen some areas were made and we are in the process of considering and implementing these. NAS have a quality assurance improvement programme and this was adhered to during 2016-17 and the results of our assurance work were shared with the Executive Director of Finance and Commercial Services and have been reported to this committee.

- 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.
- 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 2016-17 will make reference to this report and will be reported to this Committee in September 2017 for its approval (part 8 of the report)
- Our work has contributed to raising £91,933 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

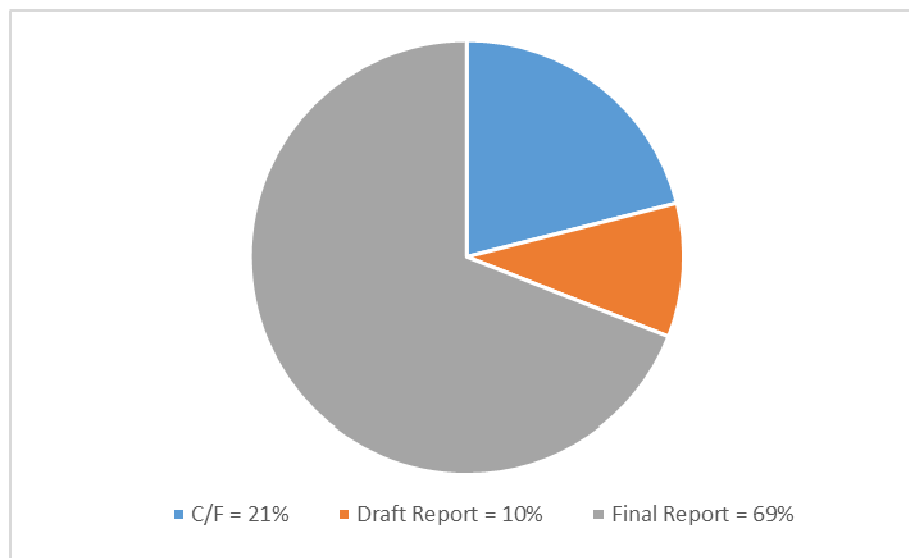
- 4.1 The Internal Audit Terms of Reference and Strategy (see 3.1), agreed at the Audit Committee in January 2015 have been fulfilled during 2016-17. The Internal Audit Terms of Reference and Strategy were due to be refreshed and agreed at the Audit Committee in January 2017, however that work was put on hold until the new PSIAS came into force with effect April 2017. This refresh has now happened and the revised Internal Audit Terms of Reference and Strategy is presented as a separate item on this agenda.
 - 4.2 The internal audit work was performed through the delivery of the Annual Internal Audit Plan 2016-17. The Audit Committee approved the first half at the start of the audit year on [28 January 2016](#) and the second half on [22 September 2016](#) (see Agenda, page 275).
 - 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 2016 Committee reporting](#), however the overall opinion days remained
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unchanged. 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 2016-17, the target for final and draft reports for the audit at year end were 30 and 7 respectively. The actual number of reports issued were 40 and 10 respectively (**Figure 2** below)

- 4.4 A summary of the work for 2016-17 is attached as **Appendix 1**.
- 4.5 The majority (79%) 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 2016-17 by share; Finals, Drafts and Carried Forward (C/F)

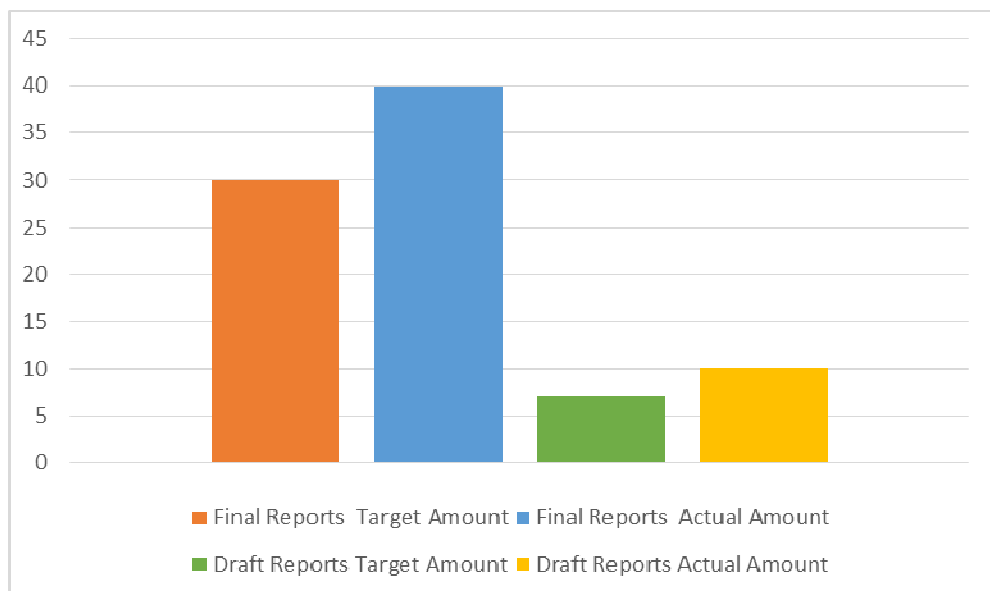


- 4.6 For the Non-school audits, including those carried forward from 2015-16, 65% of expected draft and final reports were complete at year end. The remaining audits were 'work in progress' at year end. Of those work in progress audits a significant number of them were started late in the year as planned. The 28 (21%) work in progress audits were carried forward into the current audit year. At the start of May 2017, seven more reports had been issued as draft and one as final and work was continuing on the audits in progress. It is expected that all carried forward 2016-17 audits will be completed by 30 September 2017.
- The increase in the number of carried forward audits as work in progress is due to resources being impacted and managed during the year by the management of vacancies through our contractor or temporary staff. Also the complexity of some audits has led to them being lengthier pieces of work.
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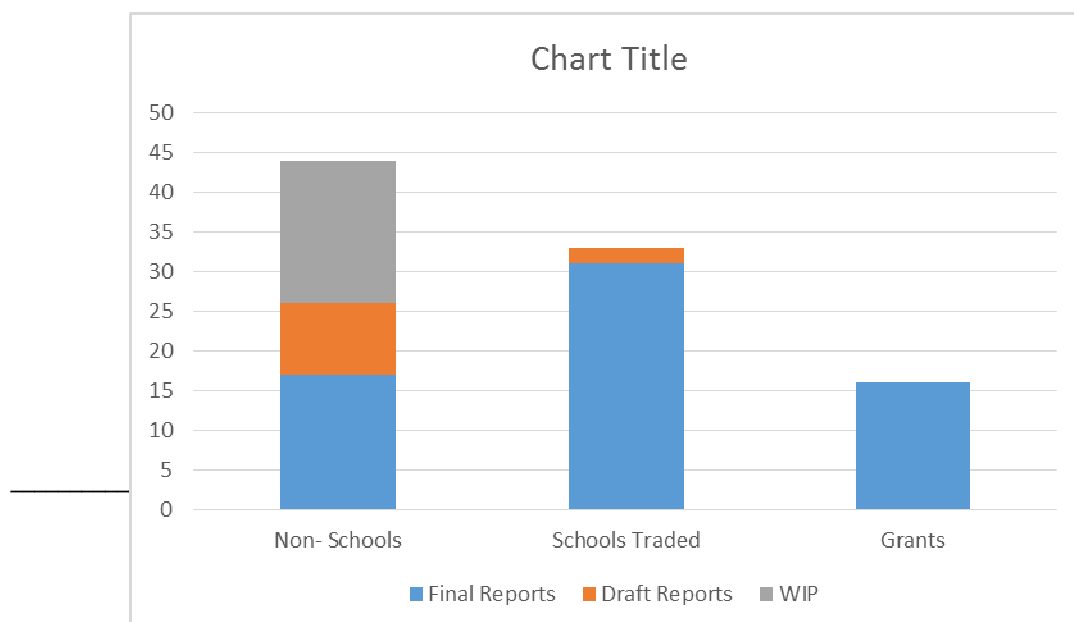
- 4.7 We completed and reported on 97% of the planned schools audits. The two carried forward schools audits have now been completed.
- 4.8 We delivered 31 traded school audits during the year which is only one less than delivered last year. The traded service is now well embedded but still needs termly proactive promotion to those schools next due an audit.
- 4.9 All of the grant certification work was completed during the year with 16 out of 17 grants issued as final (94%). The work has been completed on the final claim and is awaiting sign off.
- 4.10 Based on the revised days for 2016-17, the target for final and draft reports for the audit at year end were 30 and 7 respectively. The actual number of reports issued were 40 and 10 respectively as shown in **Figure 2** below.

Figure 2: Final and Draft reports issued 2016-17 against target



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

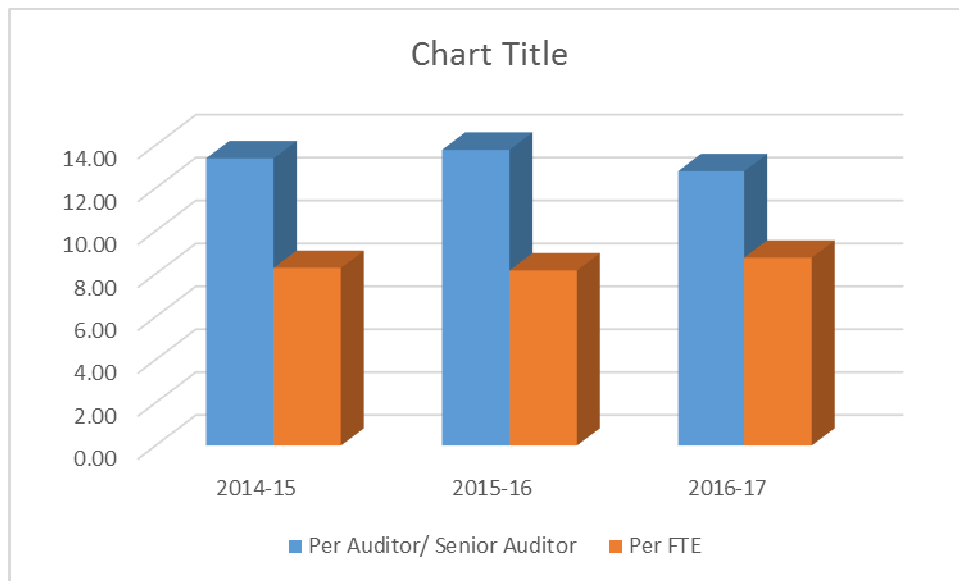
Figure 3: Completion of work by category 2016-17



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- 4.10 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 2014-15, 2015-16 and 2016-17



- 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 and reporting on investigative lines of enquiries for a significant number of County Farms complaints
 - The Internal Audit Team have embraced the Council's 'New Ways of Working', which have been implemented and measured through staff appraisals.
- 4.12 For 2016-17 benchmarking we had planned to participate in the Home Counties Chief internal Auditors CCAN benchmarking toolkit, which would have provided benchmarking over key data sets, but with the benefit of more Authorities undertaking the benchmarking allowing for fuller comparison of results. However,
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this benchmarking did not take place. We are currently obtaining an understanding of when and how this may happen. We no longer participate in the CIPFA Audit benchmarking as only two County Councils participated in the exercise for 2016. 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 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 Corporate Programme Office (CPO) 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 2016-17. 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 quarter 4 we were requested by the Executive Director of Finance and Commercial Services to undertake two unplanned audits, one for each of Children's Services and Adult Services, in respect of financial control and financial management of demand led budgets. That work is currently being completed. We also undertook unplanned work in respect of routine highways maintenance, that work is ongoing.
 - 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 France Channel England Interreg Programme - Audit Authority preparations being satisfactory. Substantial milestones have been reached by the programme as a whole during 2016-17 and in particular the Managing Authority and Certifying Authority were formally designated, following the review of the management and control system by NAS and the recommendation made by NAS to the EC. One grant offer letter has been issued and 8 more projects have been selected.
 - 4.17 During the year, Norfolk Audit Services has established a fit for purpose Consultative Audit Group (with representatives from both Member States), which has endorsed the Audit Strategy for the next 3 years. Delivery of audit work in 16/17 has been focused on the work required to support the designation of the MA and CA. In addition, further developments have been made to the audit framework and in particular, the supplier of audit work on the French territory has been selected. All FCE work has been delivered from within existing resources.
 - 4.18 Following formal designation of the MA and the CA, a first claim has been prepared and will be submitted to the EC by the end of June 2017, covering the period 1 January 2014 to 31 December 2016. Technical Assistance funding of £36.6k will be claimed from the EC, as recovery of existing staff cost incurred for the work completed between 1 April 2016 and 31 March 2017.
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- 4.19** 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 2015-16. The next assessment, for 2016-17, is due in September 2017.

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. Achievement of the first three KPI's within table 2 has been hindered by 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.

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

KPI development Area 2016 -17	Result for 2016-17
Delivery of all planned audits with (draft of final) reports	Amber
Draft reports issued within 10 days of fieldwork completion	Red
Audits delivered within £ budget	Amber

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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 The [Anti Fraud and Corruption Strategy](#) (page 75) was updated and revised in January 2014. A full refresh of this is planned early summer when our new Investigative Auditor starts in post. The updated Anti Fraud and Corruption Strategy will be presented to Audit Committee in September 2017. Two e-learning courses are available and promoted to all Members and staff of the Council. The latest [Anti-Fraud and Corruption Update](#) (See Agenda, page 104) details the communications plan which has been put in place to intensify the promotion and uptake of these courses. With the publication in October 2014 of protecting the Public Purse published by the Audit Commission, 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 2016-17. 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 £91,933 in 2016-17 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 2016-17 for the setting up of the new Audit Authority 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 31 schools through a combination of full audits and health checks.

Statement on Independence

- 8.6 The Chief Internal Auditor must confirm to the Audit Committee at least annually on the organisational independence of the internal audit activity. The internal audit activity is considered independent as:
- The Chief Internal Auditor has unrestricted access to and reports to the Audit Committee, including the Internal Audit Terms of Reference, the Annual Plan and resourcing, internal audit performance and takes enquiries regarding that work from the Committee. The internal audit activity is free from interference in terms of scope, performance and communicating results
 - Internal Auditors sign a Code of Ethics declaration annually which informs audit planning and auditors are alert to the threats from conflicts
 - Assurance engagements for functions that the Chief Internal Auditor has responsibility for, in this case Corporate Risk Management and Whistleblowing Management, are overseen by the Executive Director of Finance and Commercial Services and the Chief Legal Officer respectively and independent review will be sought to provide assurance on controls.

Quality Assurance

- 8.7 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 we are in the process of considering and implementing these.
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- 8.8 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 2017. An electronic Customer Satisfaction Questionnaire using Smart Survey is used for this purpose.

Engaging Specialists

- 8.9 During 2016-17, we have continued to engage specialists from external sources where we have not had the required expertise within the team. A Cyber Security Audit was delivered by a market specialist. This approach ensures that specialist audit areas receive high quality assurance whilst ensuring value for money.

Working with the External Auditors

- 8.10 The external auditors, Ernst and Young, are auditing the Council's Statement of Accounts for 2016-17. 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:
- 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.
- 8.11 Specific pieces of work were delivered by Norfolk Audit Services in the first quarter of 2016-17. This work supports our opinion on controls but also supports the additional work needed to support the external auditors' audit methodology. Similar work has been planned for 2017-18 to support the 2016-17 financial statements.

Annual Governance Statements

- 8.12 In addition to the Council's own Annual Governance Statement for 2016-17, to be reported to this Committee in September 2017, 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.
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- 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 2016-17 (2015-16)

	Approved Plan (revised plan September 2015)	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 2016-17 (and c/f 2015-16) draft and final
Audits in Approved Plan – Non Schools traded	60	(-9)	51	17	33% (44%)	9	26	51% (60%)
Audits c/f 2015-16 non schools traded	24	0	24	23	96%	1	24	100%
Total Audits – Non Schools	84	-9	75	40	53% (51%)	10	50	67% (68%)
Traded audits - 80 days were included in the strategy	34	(0)	34	31	91% (94%)	2	33	97% (100%)
Total excl. Grants	118	-9	109	71	65% (68%)	12	83	76% (80%)
Grant Certifications	17	0	17	16	94% (73%)	0	16	94% (73%)
Overall Total	135	-9	126	87	69% (68%)	12	99	79% (80%)
Audits c/f 2016-17 – non schools (18 work in progress, 10 at draft report)	28							21% (20%)

Figures in brackets relate to 2015-16

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 (HPF). 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. There was no Audit Committee in April 2017.

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 2016-17 it was continued with the same approach of self-assessment, customer feedback and external performance reviews. For that purpose the Chief Internal Auditor has reviewed compliance against the 2016 UKPSIAS and our internal quality assurance improvement programme. The self-review has concluded that the Council has an adequate and effective internal audit function and adequate and effective systems of internal control. For 2017-18 we have 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 2016-17, which is published with the draft Annual Statement of Accounts in June each year.

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 2016-17 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 2016-17 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
- quarterly reports to the Audit Committee and
- relevant topical reports to the Audit Committee as requested.

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 January 2014 and this was still considered fit for purpose for 2016-17. The Anti-Fraud and Corruption Strategy will be refreshed during the summer 2017 by our new Investigative Auditor and will be presented to this Audit Committee 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.
