Audit and Standards Committee

Wednesday, 13 June 2018
10.00 am
Oak Room, County Buildings, Stafford

John Tradewell
Director of Strategy, Governance and Change
5 June 2018

A G E N D A

1. **Apologies**

2. **Declarations of Interest**

3. **Minutes of the Meeting held on 12 March 2018 (10.00 a.m.** (Pages 1 - 8)
    - 10.05 a.m.)

4. **Internal Audit Outturn Report 2017-18 (10.05 a.m - 10.20** (Pages 9 - 28)
    a.m.)

    Report of the Director of Finance and Resources

5. **Exclusion of the Public (10.20 a.m. - 12.20 p.m.)**

    The Chairman to move:-

    "That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A (as amended) of the Local Government Act 1972 as indicated below".

    **PART TWO
    (reports in this section are exempt)**

6. **Exempt Minutes of meeting held on 12 March 2018 (10.20** (Pages 29 - 32)
    a.m)

7. **SAP Replacement Programme - Top Ten Risk Review and
    Limited Assurance Review (exemption paragraph 3)
    (10.20 a.m. - 10.45 a.m.)**

PART ONE
(Reports in this section are open to the public)

Note for Members of the Press and Public

Filming of Meetings

The Open (public) section of this meeting may be filmed for live or later broadcasting or other use, and, if you are at the meeting, you may be filmed, and are deemed to have agreed to being filmed and to the use of the recording for broadcast and/or other purposes.

Recording by Press and Public

Recording (including by the use of social media) by the Press and Public is permitted from the public seating area provided it does not, in the opinion of the chairman, disrupt the meeting.

Minutes of the Audit and Standards Committee Meeting held on 12 March 2018

Present: Martyn Tittley (Chairman)

Attendance	
Derek Davis, OBE	Carolyn Trowbridge (Vice-Chairman)
Mike Davies	
Michael Greatorex	Ross Ward
David Brookes	Bernard Williams
Colin Greatorex	Victoria Wilson
Ian Lawson	Jill Hood
	Paul Northcott

Apologies: Syed Hussain and Jeremy Oates

PART ONE

2.   Declarations of Interest

There were no declarations of interest.

3.   Minutes of the Meeting held on 12 December 2017

The minutes of the meeting held on 12 December 2017 were approved as a correct record.

4.   Annual Information Governance Statement

The Head of Business Support gave a presentation on the Annual Report on Information Governance explaining that information governance is the way in which the County Council handles its information, in particular sensitive information relating to its residents and employees. It provides a framework to ensure that personal information is dealt with legally, securely, efficiently and effectively, in order to deliver the best possible service.

It also offers Council employees a clear structure to deal consistently with the many different rules and regulations about how information is handled, including but not exclusively those set out in various Acts such as:

*   Data Protection Act 1998
*   Freedom Of Information Act 2000
*   Environmental Information regulations 2004.

Key highlights in 2017 included compliance with legislation and mandatory inspections. Acknowledging that there had been an increase in attacks and incidents, mirroring the national picture, the Council had technical safeguards in place. All Members and staff

were urged to remain vigilant. Sixty eight per cent of staff had completed mandatory training as of 28 February.

In terms of relevant information security statistics, Symantec Email Gateway handled 24,104,353 incoming messages of which 55% contained single or multiple threats and were blocked. 80,000 emails are blocked before they are received by employees. There has been a spike in the number of inbound phishing reports; this follows a national trend.

In regard to Incident Statistics (electronic and paper) there has also been a spike. This may be due to the fact that staff are now more aware of reporting procedures. A large proportion of incidents are internal, for example emails being sent to the wrong person. The Council's target is to reduce the figure by 25 per cent once all mandatory training has been completed. Following an internal audit inspection, the Information Governance Unit had been advised to change some of the categories against which they recorded incidents.

This year General Data Protection Regulations (GDPR) comes into force on 25 May. Mandatory cyber security training has been available for all Members and staff. A one day exercise is being held on cyber security. The transparency pages on the intranet are being updated in time for the Peer Review in September.

With reference to "the benchmark set by the Information Commissioner for an acceptable service is 85% of requests answered in 20 days" Members remarked that the public expect the local authority to respond to such requests within 28 days and may not appreciate that the Information Commissioner has set a lower standard. Members asked why it took over a year for Information Requests to be made available (Appendix A of the report) and also requested details of the totals in the diagrams in Appendices C and D of the presentation. The Business Support Manager stated that the information requests referred to in Appendix A should state "January 2017 – December 2017. Further information would be forwarded to Members in regard to the information in Appendices C and D of the report.

In regard to the changes to GDPR, Members asked if a service was being offered to Parish Councils and if the Council had sufficient resource to cope with the changes. With reference to the retention of information, Members asked how staff knew what should be retained. The Business Support Manager stated that she will be taking on the role of the Data Protection Officer from 25 May. She had approached the Parish Councils' Association to offer support from the team. There is a senior Information Officer within the Information Governance Team responsible for each area within the Council. These staff are constantly reviewing and benchmarking against other services. Advice is available from the IGT on the destruction of records. Archived records are sent to the Archives Service.

Members asked why there had been a drop in incidents reported (Appendix D) in April and July. The Business Support Manager agreed to investigate this and report back to Members.

The Chairman encouraged all Members of the Committee to complete their cyber security training.

RESOLVED: a) That the report is received;
b) That the Business Support Manager would forward to Members further information on Appendices C and D of the Annual Information Governance Statement;
c) That the Business Support Manager investigate the drop in incidents reported in April and July in Appendix D of her report, and report back to Members.

5.   Review of Effectiveness of Internal Audit and Audit and Standards Committee

a)   Internal Audit - External Quality Assessment

The Head of Audit and Financial Services summarised the results of the recent external quality assessment review undertaken in January 2018 by Ray Gard, on behalf of the Chartered Institute of Public Finance and Accountancy (CIPFA). It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that an external assessment of the internal audit function is carried out every five years. The draft report summarised the key findings of this assessment. The conclusion and opinion of the assessment was that the Council's Internal Audit Service is a competent, professional, well-qualified and respected service that is continually looking for ways to improve its overall efficiency and effectiveness. The Service Generally Conforms to the requirement of PSIAS. No areas of non-compliance or partial compliance with the standards were identified. Some minor observations, one recommendation and some suggestions were identified that should be addressed and these are detailed on pages 47- 50 of the report and will be considered for inclusion in the 2018/19 development plan.

Members asked for an explanation of the difference between recommendations and suggestions. A recommendation specifically refers to an issue in the standards that must be addressed. A suggestion is something on which the Audit Service could improve.

Members welcomed the report and the suggestions contained therein and the follow up responses.

b)   Review of the Effectiveness of the Audit and Standards Committee

The Head of Audit and Financial Services summarised the results of the recent Review of the Effectiveness of the Audit and Standards Committee against recommended practice contained within CIPFA's Publication – Practical Guidance for Local Authorities and Police 2013 edition.

Members had participated in a workshop on 12 February and a summary of the outcomes of their deliberations are given in Appendix 1 of the report.
Appendix 2 summarised the assessment key and Appendix 3 summarised the overall assessment against a list of areas where the Audit and Standards Committee could add value by supporting improvement.

Members welcomed the report and asked for details of the next steps in terms of improving on this report, with particular reference to benchmarking. The Chairman stated that the Service should periodically benchmark against other local authorities. He

had discussed risk management and the risk register in detail with the Assessor. He considered that there was some room for improvement in this area. The Head of Audit and Financial Services said that the Council subscribed to the Better Governance Forum and she would investigate if there was any relevant information that could be circulated to Members.

RESOLVED: a) The Committee noted the information contained in the report.
b) that the Head of Audit and Financial Services would investigate if there was any relevant information on the Better Governance Forum on benchmarking that could be shared with Members.

6.   Annual Report of the Management of Complaints made under the Members' Code of Conduct

The Head of Law and Democracy introduced this report stating that she was pleased to report that there had been no formal complaints dealt with under the Standards Regime and she hoped that this standard would be maintained.

She was saddened to report that Mr Charles Mitchell, one of two independent persons who had supported the County in this regard for many years had passed away early in December 2017, and she wished to place on public record her appreciation for his help and support.

Two new Independent Persons have been appointed to the Independent Persons Panel – Mr Tom Roach and Mrs Christina Robotham.

Although there were no formal complaints there have been two enquiries about the timescale within which Members can be expected to respond to queries from constituents. It was acknowledged that sometimes it could take time to gather information to respond to queries, particularly as new Members are trying to identify who to get in touch with for information.

Members were reminded that the Member:Officer protocol stated that Officers should respond to Members' queries in two working days. Officers were encouraged to keep in touch with Members if there were delays in answering their queries and to go to their buddy or Community Partnership Officer if they had any issues or concerns regarding who to contact.

In regard to a second enquiry regarding schemes funded from Members' Divisional Highways Budgets. Members considered that it would be helpful to receive some further advice on how the DHP could be spent by Members, in particular opportunities for pooling Budgets as Budgets had been reduced over the years. It was agreed to ask the Community Infrastructure Manager to share with Members best practice advice on how to spend their Divisional Highways Budgets.

RESOLVED: a) The Committee noted the report;
b) That the Community Infrastructure Manager be asked to share with Members best practice on how to spend their Divisional Highways Budgets.

7.   External Audit Plan 2017-18

Mark Surridge on behalf of Ernst and Young summarised the Audit Planning Report for the year ended 31 March 2018.

Ernst & Young confirmed that they were independent auditors and saw no potential impairment to their objectivity.

In terms of the overview of the 2017/18 audit strategy, by way of explanation and reassurance "risk of fraud in revenue and expenditure recognition" and "misstatements due to fraud or error" are mandatory risks and are applied to any organisation of any size i.e. they do not imply that Ernst and Young have any specific concerns in regard to Staffordshire County Council, but the statements reflect their professional scepticism.

"The valuation of land and buildings" remains a significant risk because of the significant proportion of the Council's total assets and the rolling valuation process incorporates significant judgements, which if inappropriate could result in a material misstatement. "The valuation of LGPS (Local Government Pension Scheme) also remainsa significant risk because of the size of net pension liability and the estimation of the defined benefit obligations is sensitive to a range of assumptions. This area continues to be an area of audit focus.

There are three new risks identified in the strategy -   the introduction of the new General Ledger System; the implementation of the new Payroll System and the 2016 financial statement audit of Entrust Support Service Ltd that had resulted in a £44m impairment of goodwill.

The Deputy Director of Finance explained that the Council was unable to reflect its share in the 2016/17 statements, as the information was not available in time.   In the view of the opinion of Ernst & Young a prior period adjustment is now required to be made in the 2017/18 financial statements. Members noted that potential revenue from digital platforms had been revised and consequently this resulted in a £44m impairment of goodwill. They were concerned that the initial calculations provided indicated that the Council's investment will reduce by £22.2m from £23.3m down to £1.1m. Members asked how this situation had arisen, what it meant in terms of profitability of Entrust and the significance of this to Members.

The Deputy Director of Finance stated that this was a bookkeeping entry in the Council's accounts and made no difference to Entrust's profitability today. It reflected the Council's share of investment in Entrust four years ago based on a set of assumptions on the company at this time. At the point of acquiring the company there were certain assumptions regarding future growth and these had not materialised. From the Council's point of view this generated a cash payment which the Council spent on protecting our services based on assumptions at that time. As Entrust has progressed the amount of growth outside Staffordshire has not been as predicted. It is therefore reasonable and prudent to adjust the valuation of the company by adjusting those values. It could be debated whether this adjustment should have taken place incrementally, or in one go, as Entrust had done, late in their accounting year in 2017. Furthermore, the Council considered it right to realign the value of the company as this reflects Entrust's growth

plans. Schools find themselves in a challenging financial position and are buying less from Entrust.

The Deputy Director of Finance went on to explain that what the Council must now do is reflect this notional value from £44m down to £0m in its accounts by writing down its share of the investment. The Council has not lost cash, but has lost the potential for future growth, so it could be regarded as an opportunity lost.

Members were reassured by this response and acknowledged the competition that Entrust faced in this market.

Ernst & Young summarised Section 3 of the report on Value for Money Risks. Ernst & Young confirmed that they would be performing some additional auditing procedures in regard to Entrust and the broader context.

In regard to "sustainable resource deployment" this was considered a risk given the challenging financial environment that the Council finds itself in and the budget gaps identified in the Medium Term Financial Strategy. It was noted that another local authority had triggered a Section 114 (of the Local Government Finance Act 1988) last week. Some of the risk and arrangements have been reviewed previously and as long as the current plans to scrutinise its financial plans to achieve budget savings and maintain an adequate level of useable reserves continue the audit will be a lighter touch.

"Working with partners and third partners" remains a risk, particularly in regard to achievement of targets set out in the Better Care Fund.

In regard to Section 4 of the report – Audit Materiality, this had been based on overall gross expenditure on provision of services of £1.1bn. The amount was based on the Council's forecast gross expenditure on provision of services, based on the risk profile and is broken down into three specific measures of materiality.

Planning materiality had been set at £11.35m for 2017/18. Audit Differences threshold is £0.57m (any matter that is identified above this amount will be reported to the Audit and Standards Committee. There are certain exemptions where matters are qualitatively material, such as senior officers' remuneration, exit packages and members' allowances that are qualitatively more material and a much lower threshold is operated for these.

Performance Materiality has been set at £8.51m. This means that any errors between £0.5m and £8.5m, is utilised as a threshold of pushing through adjustments. Ernst & Young will agree with management that an item is unadjusted in the accounts if it is below £8.51m, but only if Ernst & Young believed it would not impact on the truth and fairness of the financial statement. Any matter above this must be adjusted for. Anything over this level of £11.35m could become so material that they could detract from a true and fair view of the financial statement.

In regard to Section 5 of the report "Scope of our Audit". There are three subsidiaries, none of which are individually material. The Council is deciding if it must report Group accounts from a financial reporting perspective. Ernst &Young will agree with management whether or not they need to produce group accounts this year. They are not considered material in the broadest perspective of the financial accounts.

With reference to the section on the Audit Team, Mark Surridge stated that he was leaving Ernst & Young at the end of the month. His successor, Vishal Savjani was introduced to the Committee.

The Chairman thanked Mark Surridge for his report and wished him well with his future career.

RESOLVED: The report was received.

8.   Pension Fund External Audit Plan - 2017 -18

Caroline Davies, on behalf of Ernst & Young, summarised the key messages in the Pension Fund External Audit Plan report. The main risks were identified in the report and categorised as 'New', 'Increased Risk'; 'No change in risk or focus' or 'Decreased Risk'.

There has been a change in personnel in the Audit Team this year from Richard Page to Suresh Patel. As the Engagement Lead. He will continue to be supported by Caroline Davies.

In regard to the materiality, this has been set at £91.8m which represents an increase in the materiality to 2 per cent of the prior year's net assets this year. This means that Ernst & Young will continue to report all uncorrected misstatements relating to the primary statements greater than £4.6m but there may be items that fall outside the scope of Ernst & Young. This will be reassessed throughout the audit process.

The audit risks were summarised as detailed in pages 120-121 of the report. The significant risks were identified as Mis-statements due to fraud or error, the new General Ledger System and Valuation of unquoted investments. Full details of the risks were detailed in the report and the actions that Ernst & Young would be taking to mitigate against those risks.

The net assets of the fund as at 31 March 2017 were £4,590m of which £91.8m were planning materiality; £68.9m performance materiality and £4.6m audit differences.

Members referred to the New General Ledger System that had been identified as a significant risk and asked for further detail on how assurance would be carried out. Mark Surridge responded that Ernst & Young had continued dialogue with the Internal Audit Team on the planned work on the system migration and would do their own independent work in conjunction with IT Risk Assurance specialists to review the Council's approach and execution of the transfer of data to the new system. Members asked for further detail on the risk of the valuation of unquoted investments and were informed by the Head of Audit and Financial Management that these investments are regularly reviewed and will be considered as part of the 2018/19 Audit Plan. Members asked if they could have a further paper on pooled investment vehicles and limited partnerships and the impact that this could have on the Fund. The Chairman, mindful of recent staffing changes in the Pensions team, asked if the team was now sufficiently resourced. It was agreed that the Chairman write to the Cabinet Member for Finance to seek reassurance that the Pensions Fund is sufficiently supported to ensure that it is being administered properly.

RESOLVED: a) That the Committee add to their Forward Plan a paper on the Pensions Fund's unquoted pooled investment vehicles and limited partnerships;

b) that the Chairman write to the Cabinet Member for Finance regarding staffing resources in the Pensions Team.

9. Local Government Sector Update Report

Mark Surridge, Ernst & Young, introduced their sector briefing that updated the public sector on the work of Ernst & Young in the local government sector on the audits that they undertake.

There were no questions from Members.

RESOLVED: a) That the briefing be received.

10. Work Programme 2017-18

The Chairman drew Members' attention to size of the Work Programme and asked if Members preferred to have longer or additional meetings. Following discussion Members asked if a further meeting could be added in May 2018.

Members asked if they could receive a report on SAP and were informed that this would be included in the Internal Audit Outturn Report 2017-2018.

RESOLVED: That the Work Programme be received;

b) a further meeting be added to the Work Programme in May 2018.

11. Exclusion of the Public

The public were excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A (as amended) of the Local Government Act 1972.

12. Cyber Essentials - Limited Assurance Review - Update (exemption paragraph 3)

(Exemption paragraph 3)

13. Internal Audit Report - Limited Assurance Review - Fairer Charging and Welfare Benefits (exemption paragraph 3)

(Exemption paragraph 3)

Chairman

Local Members Interest
N/A

Audit and Standards Committee – 13th June 2018

Internal Audit Outturn Report 2017/18

Recommendation

1. To receive the outturn report containing the annual internal audit opinion for 2017/18.

Report of the Director of Finance and Resources

Background

2. This report outlines the work undertaken by Internal Audit in respect of the 2017/18 annual plan.

3. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements, i.e. the control environment of the organisation. Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes[1].

4. Internal Audit is required by professional standards, i.e.UK Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.

5. The underlying principles to the 2017/18 plan were outlined in the Audit Plan paper presented to and approved by Members of the Audit & Standards Committee on 26 June 2017. Since the original plan was approved a number of additional audits have been required, whilst some planned reviews were no longer needed and several deferred due to operational requirements. The net effect is that the key performance target has been achieved. Work is scheduled to meet the requirements of the business area to ensure the greatest benefit is achieved from the audit work. Therefore it is not uncommon for reports to be at draft report stage at the end of the audit year.

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[1] Public Sector Internal Audit Standards definition of Internal Auditing.

6. Audit opinions are awarded for individual systems and compliance audits within one of the following categories listed below. Further information as to how these are determined is given in Appendix 1.

- Substantial Assurance
- Adequate Assurance
- Limited Assurance

7. Paragraph 9 provides a high level summary of the work undertaken by the Section analysed by the following categories:

- High Risk Auditable Areas
- Main Financial Systems
- Systems Audits (reported by exception, i.e. only those with "Limited Assurance" and/or those with a High Level Recommendation)
- Compliance Reviews
- Financial Management in Maintained Schools including payroll arrangements
- Special Investigations/Fraud & Corruption Related Work.

8. For those areas awarded 'Limited Assurance' action plans have been or are in the process of being agreed with the relevant Director /Head of Service. During 2017/18 Members of the Audit & Standards Committee have continued to receive full copies of all "Limited Assurance", High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports (i.e. greater than £10,000 financial loss/Significant Corruption issues) once finalised. Relevant managers have attended the Committee to provide assurance that appropriate action has been taken regarding the implementation of recommendations. Internal Audit will continue to track and report on the implementation of High Level recommendations, including those contained within reports awarded "Adequate Assurance".

9. 2017/2018 Audit Plan Outcomes

9.1 High Risk Auditable Areas

The County Council made the decision during 2015/16 to replace the Council's Enterprise Resource Planning (ERP) system, SAP, and procure alternative, and separate, Finance and HR systems. In December 2015, the decision was made to procure Integra as the Finance Solution for both schools and the County Council via Entrust (known as My Finance) and in June 2016, the decision was made to procure iTrent as the HR Solution for the County Council via a framework agreement set up by Worcestershire County Council (known as My HR). This framework is managed by a third-party supplier called Liberata, a Business Process Outsourcing organisation, in partnership with Midland HR the system solution provider.

Both projects were successfully launched, My HR went live on 1 September 2017, followed by My Finance on 6 November 2017.

The implementation of these two key fundamental IT systems was represented by two significantly large projects (referred to as the SAP Replacement Programme) and was a huge undertaking and commitment by the Council spanning the whole of 2017/18. As would be expected, Internal Audit deemed the whole of the SAP Replacement Programme to be one of the top ten risks in 2017/18 and allocated 140 days to undertake project

support work to give on-going and timely assurance to senior management over the new control environment including the design of streamlined cost efficient processes.

An Audit Manager and the ICT Audit Manager were seconded onto the My Finance project from May 2017 at the request of the Deputy Director of Finance. This was to ensure advice and guidance relating to best practice, policies, procedures and controls were put in place prior to the launch of both systems. As part of Internal Audit's work, the Audit Managers attended various project workstreams as well as the My Finance Steering Group. The Chief Internal Audit (CIA) was also a member of the My HR Design Authority and attended the SAP Replacement Board. At the conclusion of both projects, Internal Audit delivered a number of audit reports on key project outputs and the resulting opinions are significantly important in providing the annual Head of Internal Audit opinion for this year. The audit opinions for the SAP Replacement Programme audit reviews along with the other high risk audit reviews are summarised in the table below:

System Area	2017/18 Opinion	2017/18 Consultancy
Staffordshire & Stoke on Trent Partnership – Contract Management	Adequate Assurance	
Brokerage Services: Redesign Pathway	Adequate Assurance	
Brokerage Services: Performance Management	Adequate Assurance	
Care Director Upgrade (Data Migration)	Substantial Assurance	
Core Payroll & Schools Payrolls – Retained Client & Control Function	Adequate Assurance	
Liberata Payroll System	Limited Assurance	
Capital Receipting Transformation	Substantial Assurance	
Cyber Security – Incident Preparedness & Response effectiveness	Adequate Assurance	
Strategic Property Asset Management and Governance	Deferred into 2018/19	
**Corporate Scheme of Delegations	Draft Report With Management (Adequate Assurance)	
Service & Commercial Contract Management Arrangements	Adequate Assurance	
Procurement – Commercial Services	Adequate Assurance	
My Finance – System Security	Limited Assurance	
My Finance – User Acceptance Testing (UAT)		√ Project Advisory work prior to go live
My Finance – Data Migration	Adequate Assurance	
My Finance - Interfaces	Adequate Assurance	
My HR – System Security	Limited Assurance	
My HR - UAT Position Statement 1	Substantial Assurance	
My HR - UAT Position Statement 2	Substantial Assurance	
My HR - Data Migration Position Statement 1	Adequate Assurance	
My HR - Data Migration Position Statement 2	Substantial Assurance	
My Archiving – Data Archiving	Adequate Assurance	

** Currently at draft report stage, therefore the high level recommendation has not been included within this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.

As would be expected with the implementation of new systems, issues have been identified pre and post systems implementation as time is required to embed business as usual processes. Senior management supported fully the early audit work to identify concerns at the earliest opportunity and the responses to all of the recommendations made as a result of our work have been positive with the implementation of all but two high level recommendations to be completed by 30 September 2018 with the remaining two

recommendations to be implemented by 31 December 2018. It should be noted that whilst manual controls are in place to mitigate some of the risks identified, the control environment of both My Finance and My HR IT systems will be improved significantly when these high priority recommendations are implemented. This will ensure also that the Council's IT systems are utilised to optimum levels.

Two of the Limited Assurance reports issued for the high risk systems areas in 2017/18, fall under the SAP Replacement Programme suite of audit reviews, with the other Limited Assurance report relating to the Liberata Payroll System. The high level issues arising from these reviews are as follows:

System Area	Areas for Improvement
My Finance – System Security	• **Vendor Supplied Accounts** - Five vendor supplied accounts were enabled in My Finance and their passwords had not been changed from those that were supplied with the system due to a lack of understanding of what these accounts are used for and what system processes may be impacted by a password change. • **Access to LOGINDB** - It was found that the LOGINDB can only be accessed through a single account, named LOGINDB. The password for this account was known to more than one individual and provides no accountability for such a highly privileged account. • **Access to SYSADMIN** - It was established through interview and testing that a system access role called SYSADMIN had been assigned to 10 Council employees. As such, a review needs to be undertaken of access roles assigned to users such as system administrators to ensure they do not allow users to perform activities that could allow them to carry out fraudulent activities, commit separation of duties (SoD) violations and cover through deletion, system transactions. • **Change Control Policy** - A formal change control policy for My Finance does not exist to reflect changes made internally by the My Finance support team and those changes made by Capita. • **Separation of Duties** (SoD) - Whilst a SoD matrix had been created, it was incomplete and had not been agreed. As a result, a review had not been undertaken to identify conflicting user roles within My Finance.
My HR – System Security	• **Access to MSS** - The need to review access to Manager Self Service (MSS) and the My HR back-end and to consider the impact of further restricting access through the corporate network or Two Factor Authentication (2FA). Any decision to not further control access to MSS and the back-end should be signed off by the Senior Information Risk Owner (SIRO) or the Senior Leadership Team (SLT). • **Access to SYSADMIN** - Audit testing identified a number of Liberata users with access to the WORCC – SYSADMIN role. This included 4 out of 5 members of the Liberata Staffs Payroll and HR team. • **Separation of Duties (SoD)** - A Segregation of Duties matrix had not been created to identify conflicting user roles within My HR. Internal Audit has also highlighted concerns with access roles provided to Liberata users, which creates potential SoD conflicts. • **SoD Conflict** - Internal Audit testing confirmed a SoD conflict that enables users to approve their own travel claims when tasks have been redirected to them by their line manager. • **Access Restrictions** - Access restrictions were found not

	to have been applied throughout all sections of the My HR system, therefore, payroll data for individuals employed by organisations other than SCC can be accessed via the reporting functionality within My HR.
Liberata Payroll System	Although no high level recommendations were made in the Liberata payroll System review, a significant number of medium level recommendations were made (13) giving rise to the limited assurance opinion awarded in year. Some of the significant areas for concern related to:- • **New Starters -** Errors and omissions were identified in the information recorded on My HR for a sample of new starters. • **Changes to Payroll Records** - Evidence to support changes to payroll records could not be provided, or, could not be verified against the information recorded in the My HR system for a number of the cases reviewed. • **Evidence to Support Payroll Payments** – Evidence to support some payroll transactions (emergency payments/one-off payments) had not been provided to confirm the legitimacy of these transactions. • **Payroll Overpayments –** weaknesses were identified in the recovery of payroll overpayments including timeliness of process. • **Verification Checks** - Verification checks to ensure that amendments have been correctly completed and applied are not recorded to confirm that the transactions have been reviewed and any corrections required.

In addition for those reports relating to high risk auditable areas, with an opinion of at least "Adequate", five high level recommendations were made as follows:

System Area	Areas for Improvement
Brokerage Performance Management	• **Approval for Care Packages** - Our audit review highlighted that the recording of approvals for care packages was not always being adhered to.
Cyber Security – Incident Preparedness & Response Effectiveness	• **Monitoring of System and Network Logs** - The audit review found that although system and network logs are held, they are not being analysed continuously or reviewed periodically to identify anomalies or indicators of compromise.
Procurement - Commercial Services	• **Evidence of Procurement Process Followed** - A review of vendor spend between November 2017 and February 2018 highlighted areas where it is unclear whether a procurement process was followed and should have been and/or expenditure is occurring without an appropriate contract in place.
My Finance - Interfaces	• **Access Permissions** - The Everyone and RESOURCE/Users groups had been granted Read and Execute privileges to the Input, Archive and Output folders on the SQL Server Integration Services (SSIS) cloud server hosting all interface files. This allows access to all network users. As a result, this access should be removed.
My HR – Data Migration Position Statement 1	• **Defect Log** - Although managed, defects found during the data migration were not logged formally in a defect log as per the requirements of the approved Data Migration Approach. Also, there was no documentation to support the prioritisation that was placed on the resolution of these defects.

Note: There can be a maximum of one high level recommendation contained in a report awarded Adequate Assurance.

The entire suite of final audit reports produced as part of the SAP Replacement Programme is contained in the confidential agenda, and will be discussed in detail when the Committee reaches this part on the agenda.

9.2 Main Financial Systems

Coverage of these areas is in line with the audit strategy.

Main Financial System	2014/15 Opinion	2015/16 Opinion	2016/17 Opinion	2017/18	Direction of Travel
Pensions Payroll	Adequate Assurance	Substantial Assurance	Adequate Assurance	Adequate Assurance	→
Pension Fund – Custodian, Investment Managers and Pensions Property.	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Budgetary Control	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Pension Administration	Substantial Assurance	Substantial Assurance	Adequate Assurance	Adequate Assurance	→
Pension Fund - Governance	Not covered in 14/15	Not covered in 15/16	Substantial Assurance	Substantial Assurance	→
Procure to Pay	Adequate Assurance	Not covered in 15/16	Adequate Assurance	Adequate Assurance	→
Sales to Cash	Not covered in 14/15	Adequate Assurance	Limited Assurance	Limited Assurance	→
Debt Recovery (Legal Services) now joint with Sales to Cash since 16/17	Adequate Assurance	Adequate Assurance			
E- Payments	Adequate Assurance	Not covered in 15/16	Not covered in 16/17	Substantial Assurance	↑
Cheque Control	Substantial Assurance	Not covered in 15/16	Not covered in 16/17	Not covered in 17/18	→
Main Accounting	Not covered in 14/15	Substantial Assurance	Project work & reported under the High risk areas	Bank Reconciliations Adequate Assurance	↓
Fixed Asset Register & Capital Accounting	Not covered in 14/15	Not covered in 15/16	Not covered in 16/17	Not covered in 2017/18	→
Treasury Management & Financial Director	IT system – Adequate Assurance	Substantial Assurance	Not covered in 16/17	Not covered in 2017/18	→

There has been one Limited Assurance report issued for the main financial systems areas in 2017/18.

System Area	Areas for Improvement
Sales to Cash	• **Outstanding Debt level** - The amount of outstanding debt over six months old is in excess of the self-imposed limit of £2.25m. No action has been taken to revise the limit. The amount of outstanding debt has significantly increased compared to the position that the Council was in at the time of the last review • **Legal Debt Recovery** - Although a proportion of existing debt referred to Legal Services has been recovered within the year, no new cases have been referred to the Legal Debt Recovery Officer for evaluation and action within 2017/18. Furthermore, not additional cases have been referred to Legal Services. Progress against existing cases is difficult to quantify or monitor, as progress is documented against individual customer accounts and clear records have not been maintained.

For information, for those reports with an opinion of at least "Adequate" for each financial system, two high level recommendations have been made:

System Area	Areas for Improvement
Procure to Pay	• **Vendor Amendments** - Whilst email alerts are triggered when vendor amendments are made, the alerts do not include information regarding the nature of the change. This does not allow management to independently review these changes to ensure they are appropriate. Thus, the current process for ensuring vendor amendments are legitimate is not effective.
Main Accounting System – Bank Reconciliations	• **Matching Process** - The automatic matching function in My Finance has not been fully tested and transaction matching is being completed manually and on a weekly rather than daily basis. This increases the amount of time required to match transactions and reduces the time available to staff to deal with queries regarding unusual entries. Comparison of the year end bank reconciliation (2017/18) with the previous year has also identified a significant increase in the number of unreconciled items.

Note: There can be a maximum of one high level recommendation contained in a report awarded Adequate Assurance.

9.3 Systems Audits – (reported by exception, i.e. only those with Limited Assurance and/or those with a high level recommendation).

System Area	2017/18 Opinion
Fairer Charging & Welfare Benefits	Limited Assurance
Deputyships	Limited Assurance
Special Education Needs and Disabilities (SEND) (Action Plan)	Limited Assurance
Purchasing Cards	Limited Assurance
Mental Health: Recuperation of Health Contributions	Limited Assurance

One other systems audit review has also been awarded a Limited Assurance opinion. This review is at draft report stage, therefore the high level recommendations have not been included within this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.

Assurance could not be provided regarding the operation of the following control objectives:

System Area	Areas for Improvement
Fairer Charging & Welfare Benefits	• **Timely Authorisation of Care Packages** - It was identified that care packages are not authorised promptly, causing significant delays in producing invoices and resulting in service users accumulating large care charges and SAP records were not up-to-date with deferred care charge invoices • **Write-Off Process** - Debts expected to go uncollected had not been written off, and debts are not written off regularly.
Deputyships	• **Capital Balances** - Caseworkers were not monitoring those capital balances used by the Department of Works and Pensions (DWP) to calculate the benefit awarded to ensure that they are an accurate reflection of the amount of capital held by the client. • **Transaction Review** Internet banking transactions (relating to Client bank accounts) were not subject to an appropriate level of review. • **Compliance with Investment Policy** - Testing found that in some cases, client funds (where they exceeded £35k) had not been invested in accordance with the Investment Policy. • **Non-Compliance with Standards** - Areas of non-compliance with the Office of Public Guardian (OPG) Standards for Public Authority Deputies(the standards) were identified in relation to waiting list clients, insurance, security, inventory, personal possessions, property decisions and the sale of property.
Special Education Needs and Disabilities (SEND) (Action Plan)	• **Quality Assurance Process** - The Local Area Review SEND Self Evaluation document (LAR SEF) has not been quality assured. • **LAR SEF** - The LAR SEF was not linked clearly to the SEND Strategy 2018 – 2021 and risk areas had not been prioritised.
Purchasing Cards	• **Purchase Card Transaction Approval** - Purchase card transactions were not always approved in a timely manner, leading to the transaction being auto approved. In addition, there was not always evidence that purchase card transaction line items had been checked prior to approval and narrative descriptions were not always added to describe the nature of the expenditure which also assists with the approval process. In addition, warning emails to card holder approvers have ceased, where approvers have not approved transactions by the deadline date and have had to be auto approved by the Payments Team. • **Cash Only Purchase Cards** - Weaknesses were found in how cash withdrawals using a purchasing card and cash subsequent spent were being accounted for not only within the RBS system but also the manual local records held by establishments.
Mental Health: Recuperation of Health Contributions	• **Terms of Reference** - Terms of Reference for the Quality Assurance Panel (QAP) have not been revised, agreed and formally issued to confirm accountabilities and requirements, including quorum requirements for decision making. • **Decisions/Approval Process** - Although processes have been identified to ensure that agreement from all parties is obtained prior to final agreement of a jointly funded care

	package, further clarification and liaison between the stakeholders is required to ensure that decisions/approval is obtained in a timely manner and evidenced appropriately.

The following table lists those systems audits where high level recommendations have been made to address control weaknesses within Adequate Assurance reports:

System Area	Areas for Improvement
Capital Property Works - Planned (Schools & Non-School)	**Capital Works – Approval of Variations** - thresholds for when changes to costs require approval have not been determined and changes may not have been authorised by officers with appropriate decision making authority.
Strategic Workforce Planning	**Strategy Workforce Development Plan** - A Strategic Workforce Development Plan is not in place to support achievement of the organisations strategic objectives.
Recruitment - Core	**Training for Recruiting Managers** - Mandatory training for recruiting managers has been taken down from the Go platform for improvements to be made; this has now been offline for several months and has resulted in managers recruiting new staff without completing the training.
MTFS – Delivery Plan	**Delivery Plan Savings Lines** - There are several savings related lines in the Delivery Plan where detailed work to quantify and operationalise that saving is still in development. However, the Council has not quantified the risk of non-delivery in financial terms.
All Aged Disability – Supported Living	**Personal Budgets and Support Plans -** Support planning has not been completed and personal budgets have not been agreed by providers and SCC Commissioners.
Deprivation of Liberty Safeguards follow up	**Statutory Timescales For Assessments** – Statutory timescales for carrying out assessments were routinely not being met and there is a lack of consequence where Staffordshire and Stoke On Trent Partnership (SSOTP) are not completing assessments in line with expected targets.
IR 35 Legislation (Personal Services Companies)	**Monitoring Changes to IR35 status -** There are no controls in place for monitoring changes of IR35 status due to contract length, or review of the ongoing substance of the contract where changes may have occurred.

Note: There can be a maximum of one high level recommendation contained in a report awarded adequate assurance.

9.4 Compliance Reviews

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Compliance - Adults				
Comforts Funds	13	0	0	13
Other Compliance				
Educational Endowment Funds	5	0	0	5
Compliance Reviews	**18 (100%)**	**0 (0%)**	**0 (0%)**	**18**

The above reviews related to the audit of accounts and no issues were identified.

9.5 Financial Management in Maintained Schools

9.5.1 Schools Payroll

Previously HRSSC was responsible for payroll services to schools, however from September 2016 these services have been provided by a number of different bodies. In 2017/18, as a result of the changes Internal Audit has undertaken a themed audit review of payroll services to provide assurance on the internal control environment operating in schools for payroll. The detail from the themed audit reviews on payroll is provided at section 9.5.2 below.

9.5.2 Schools Compliance

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Schools Compliance – High Schools	0	5	1	6
Schools Compliance – All other schools	1	12	1	14
Payroll Audit themed review	6	12	0	18
TOTAL	**7 (18%)**	**29(77%)**	**2 (5%)**	**38**

The compliance and payroll themed reviews identified non-compliance with key controls in the following areas:

Schools – General Compliance

Governance
- Scheme of Delegation requires amendment/approval (*19 schools)*
- Budgets have not been set or approved in accordance with the Scheme of Delegation (*4 schools*)
- Governing Body Agendas and minutes not held by the school (*2 schools*)
- Policies not approved in accordance with the Scheme of Delegation (*1 school)*
- No debt management policy or does not cover all areas of income (*9 schools*)
- Pecuniary interest register not up to date or held/published in accordance with guidance (*5 schools*)
- School Fund not audited and approved in accordance with requirements of Financial Regulations (*10 schools*)
- Lease not in the name of the school/or copy not held by the school (*2 schools*)

Income
- Income is not banked promptly and/or intact (*8 schools*)
- Income is not recorded or receipted in accordance with Financial Regulations (*6 schools*)
- There is a lack of separation of duties or independent check in the income and banking process (*13 schools*)
- Cash is not held securely and/or may not be held in accordance with SCC Insurers cash holding limits (*5 schools*)
- Lettings are not administered appropriately (*5 schools*)
- Lettings charges are not made in accordance with policy or reviewed and approved annually (*2 schools*)
- Invoices have not been raised in the finance system or unofficial invoices have been

raised (*4 schools*)
- Income from Parent Pay is not paid directly into the County Council's bank account (*1 school*)
- Access rights to Parent Pay are not controlled appropriately (*1 school*)
- No independent reconciliation or review of Parent Pay postings (*4 schools*)

Procurement
- No financial limits set for declared pecuniary interest in companies (*3 schools*)
- Procurement/procurement card transactions not in accordance with Scheme of Delegation and Procurement Regulations (*12 schools*)
- Purchase card is not held/ used in accordance with the Purchase Card Manual/Financial Regulations (*2 schools*)
- Incorrect accounting for VAT (*8 schools*)

Imprest Accounts *
- There is no independent reconciliation of the imprest account (*1school*)
- Imprest account not administered appropriately (*1school*)

The implementation of My Finance has seen the closure of imprest accounts held by schools.

Expenditure
- Lack of supporting documentation to evidence expenditure incurred (*1 school*)

Schools – Payroll Themed Audit

- Authorisations for appointments, terminations and variations could not be evidenced and/or retained on personnel files (*9 schools*)
- Additional hours claim forms not signed by employee and/or not authorised in accordance with Scheme of Delegation (*10 schools*)
- Validation checks and agreement/authorisation of the payroll is not evidenced (*12 schools*)
- Service level agreement for current year to confirm services to be provided/costs not received (*5 schools*)
- Contract for provision of payroll services not authorised in accordance with Scheme of Delegation (*1 school*)
- No contingency arrangements for payroll services to cover key staff absences (*4 schools*)
- Data is not being transferred securely (*8 schools*)
- Procedures not in place to ensure the prompt receipt of contracts of employment (*3 schools*)
- Pre-recruitment checks could not be verified (*2 schools*)
- Lack of separation of duties between input of payroll information and checking of payroll reports (*7 schools*)
- No evidence to support the recruitment and interview process (*1school*)
- Mileage and expense claims not reviewed, authorised in accordance with Scheme of Delegation or supported by receipts (*2 schools*)
- Salary overpayments identified by the school have not been queried with the provider (*1 school*)
- Payroll reports held on personal drives and not accessible to other relevant staff as required (*1 school*)

9.6 Special Investigations/Fraud & Corruption Related Work

A summary of work undertaken in relation to fraud and corruption and specific counter fraud testing is attached as **Appendix 2** in the confidential part of the agenda. Overall, the counter fraud and corruption work carried out in 2017/18 indicated that there are minor lapses in the application of controls leading to an increase in the risk of fraud. The table below summarises those exercises and investigations which involved confirmed financial loss. Reports have been issued to ensure that the control weaknesses have been addressed and re-occurrence prevented.

Area	Financial Value £	Control Objective
Internal Special Investigations of Fraud	11,238	This figure includes suspected loss from ongoing investigations.
NFI*	73,317	Duplicate Payments
(all losses are subject to recovery action)	2,100	Payments to Care Homes for Deceased Residents -excludes figures previously reported to the Audit & Standards Committee as part of the 2016/17 outturn report , 26th June 2017 (£52k)
	6,195	Personal Budget Payments to Deceased Residents
	12,382	Payments to Deceased Pensioners
Total	**105,232**	

*NFI = National Fraud Initiative. This is a national exercise currently administered by the Cabinet Office. Data submitted by the Council is crossed checked against other public sector organisations' data highlighting potential areas of fraud. These are then investigated locally. Detailed reports are reported regularly to Members of the Audit & Standards Committee highlighting the results of this work.

The quantity of concerns referred to Internal Audit has increased during the year to 25 (38% increase on 2016/17). Potentially, this is due to new anonymous methods of reporting fraud becoming available (such as the online reporting form). The actual loss related to referrals has increased from £4,690 in 2016/17 to £11,238 in 2017/18. This value is not seen to be material. These types of investigation are very resource intensive particularly if the matter is referred to the Police for criminal action to be taken. The level of resource available to perform this area of work has been limited during the year.

In order to evaluate the effect this element of Internal Audit work has upon the wider control environment, a threshold of £300,000 financial loss per annum has been set. When this level is exceeded it is considered to have a material effect on the control environment. This year's level of actual financial loss does not indicate detected fraud is a significant problem to the Council.

It should be noted that the figures below include error and losses identified during the NFI 2016 exercise. As outlined in Appendix 2, these losses include both fraud and error, much of which we expect to be recovered. Of the £105,232 identified as losses from fraud and error in 2017/18, only £11,238 relates to suspected fraud against the Council, the remainder (£93,994) being errors identified during the NFI. The table below shows the trend of actual financial loss due to fraud and error over recent years:

Year	Financial Value	Direction of Travel
2011/12	£179,312	↑
2012/13	£29,831	↓
2013/14	£101,753	↑
2014/15	£94,140	↓
2015/16	£73,115	↓
2016/17	£56,690	↓
2017/18	£105,232	↑

The special investigations category consists of two elements: firstly financial loss above £300,000 and secondly an evaluation of the control environment based on the counter fraud and corruption work outlined as a separate item on the agenda. Proposed percentage allocations are as follows:

Special Investigations		Fraud and Corruption Work	
£0 – below £50,000 loss	50%	Procurement /Contract arrangements	10%
£50,000 - £150,000 loss	40%	Physical Cash/Asset management arrangements	10%
£150,000 - £200,000 loss	30%	Payment mechanisms	10%
£200,000 - £300,000 loss	20%	Payroll /Expenses	10%
Above £300,000 loss	10%	Income	10%

Based on the above criteria the overall score awarded for this category is **90%** (i.e.40% for the special investigations elements as the actual financial loss incurred is between £50,000 - £150,000. 50% has been awarded for the fraud and corruption elements based on the details outlined in the report contained in the confidential agenda).

10. Overall Opinion on the Control Environment

Following discussion at the Audit & Standards Committee at its meeting on 30 July 2012, it was agreed to endorse the methodology outlined below, which was used as the basis to form the annual assessment of the overall internal control environment. It is not proposed to amend this method for the 2017/18 assessment.

Current Methodology

Each separate category of audit work is assessed against a benchmark of achieving a score of at least 90% of the total number of audits performed being awarded an opinion of "Adequate or above" within each category. For a reason of simplicity, each category attracts equal weighting and a simple pass / fail assessment is used to differentiate the overall opinion between "Substantial, Adequate and Limited" as illustrated below:

Overall Opinion Level	No of categories achieving the 90% benchmark
Substantial Assurance	6 out of the 6 categories
Adequate Assurance	4 or 5 out of the 6 categories
Limited Assurance	3 and below out of the 6 categories

Implications

The following table details the calculation of the 2017/18 overall assessment:

Audit Category	% awarded an opinion of at least "adequate"	Pass/Fail
Key Risk Areas *(paragraph 9.1)*	85%	Fail
Main Financial Systems *(paragraph 9.2)*	90%	Pass
System Audits *(paragraph 9.3)*	91%	Pass
Compliance Reviews *(paragraph 9.4)*	100%	Pass
Financial Management in Schools *(paragraph 9.5)*	95%	Pass
Special Investigations/Fraud & Corruption Related Work *(Paragraph 9.6)*	90%	Pass
Overall Total		**5 out of 6 categories passed**

The chart below details the audit opinions given to the key audit categories and provides a comparison with those awarded over the last five years, 2013/14 to 2017/18:
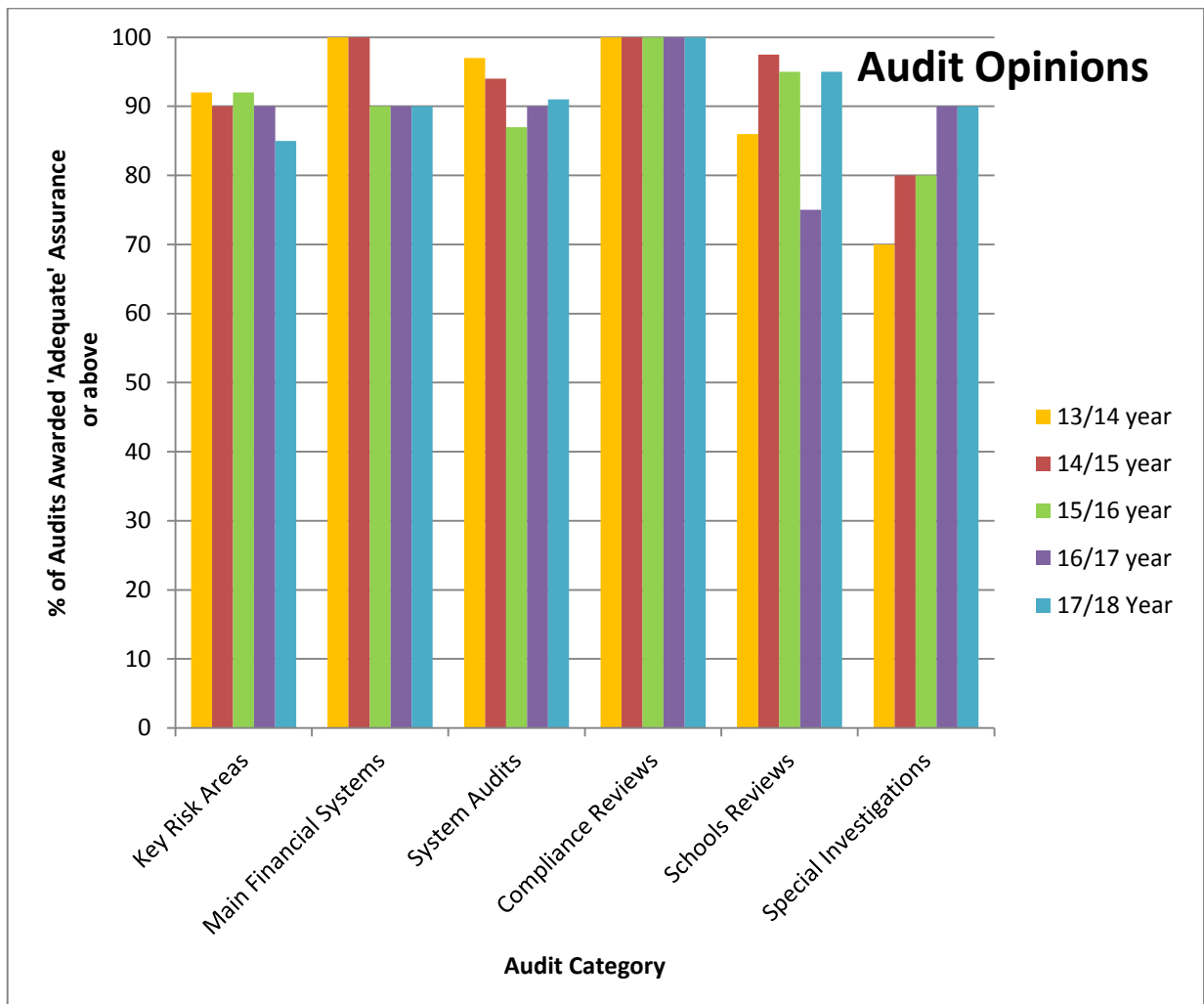
Based on the above, an **"Adequate Assurance"** opinion has been given on the overall adequacy and effectiveness of the organisation's governance, risk and control framework, i.e. the control environment in 2017/18. This year has been dominated with the replacement of both the Council's Financial and HR IT systems which was a huge undertaking and commitment spanning much of 2017/18. This area was considered by Internal Audit as a high risk in this year, and a significant amount of audit work has been undertaken during the year to help support the design and implementation of a robust control environment. Although My HR and My Finance were launched successfully in September 2017 and November 2017 respectively, our early audit work carried out as part of the SAP Replacement Programme has highlighted a number of high level issues in relation to the system security arrangements for both My HR and My Finance, which has resulted in these areas being awarded a limited assurance opinion in 2017/18. It should be noted that whilst manual controls are in place to mitigate some of the risks identified, the control environment for both IT systems will be improved significantly when these high priority recommendations are implemented and will ensure that the Council's IT Systems are utilised to optimum levels . The changing payroll control environment for the Council's core payroll has identified a number of areas for improvement, which has also resulted in the system being awarded a limited assurance opinion this year. Although the schools compliance element of the assessment has achieved the benchmark, there are still some areas of non-compliance in relation to payroll controls which have been identified and further recommendations have been made to address these. The main financial systems element of the assessment has also achieved the benchmark, however, the direction of travel for a few aspects has not been maintained and in particular, the level of outstanding debt continues to grow, exceeding the Council's internal target and further improvements are required in respect of the debt recovery process.

A number of other audit reviews during 2017/18 have identified high level issues which have resulted in these systems being awarded limited assurance opinions. The overall number of limited assurance opinions being awarded has increased since last year. Whilst one reason is the implementation of two key IT systems and associated changes to process, another reason may be due to issues of capacity within the Council to undertake key activities. It is important that the key actions identified in these audits are addressed, implemented as agreed and progress monitored to ensure that the necessary steps have been taken to strengthen the control environment. This will be a key focus for the 2018/19 Internal Audit Plan.

11. Performance Measures

Key performance indicators (KPI) for the Internal Audit Service are detailed below. The Service has met its key performance target of more than 90% of reports being issued to draft report stage for both systems and compliance audits during 2017/18. The Service continues to meet the KPI targets for the quality questionnaire feedback.

Description	Target %	2015/16 %	2016/17 %	2017/18 %
Reports issued to draft report stage:				
➢ Systems Audits	**90**	93	91	92
➢ Compliance Audits	**90**	99	100	95
Average score for Quality Questionnaires from clients is equal to or exceeds the 'good' standard:				
➢ System Audits	**90**	100	100	100
➢ Compliance Audits	**90**	100	100	100

12. Performance against the UK Public Sector Internal Audit Standards

The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. These have been updated periodically since. A Local Government Application Note has also been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide further explanation and practical guidance on how to apply the standards.

The Internal Audit Service works to an Audit Charter approved regularly by the Audit & Standards Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way in which it interfaces with the Council. A detailed paper outlining how the Service meets the specific requirements of PSIAS & LGAN was presented to the Committee in June 2014 and since this date, self-assessments have been undertaken. This year, however, has seen the Service's inaugural External Quality Assessment (which is required to be conducted once every five years). Last year, the CIA commissioned CIPFA to undertake a full External Quality Assessment of the Internal Audit Service. The review was carried out between 21 and 25 January 2018 through a process of interviews and document review. The full assessment results were reported to the last Audit & Standards Committee held on 12 March 2018 which outlined the overall conclusion and opinion of the assessor.

For ease of reference, the key highlights from the External Quality Assessor's report published in February 2018 were that 'the review established that there were no areas of non-compliance or partial compliance with the standards identified'. Based on the work undertaken the overall conclusion is –' it is our opinion that Staffordshire County Council's Internal Audit Service Generally Conforms to the requirements of the Public Sector Internal Audit Standards and those of the Local Government Application Note.' This is the highest category level that can be awarded via the CIPFA assessment process. One recommendation was made, together with three suggestions for improvement. The details together with the agreed action to address the recommendations were included within the action plan at section 7 of the assessor's report which has previously been reported to the Audit & Standards Committee.

The key areas for improvement identified as part of last year's self-assessment have continued to be actioned during 2017/18 and progress is reported below:

Action Points	Current Status
Determining the arrangements relating to the future five yearly external assessment;	**Completed** - As detailed above, the external quality assessment took place in January 2018 and the results reported to the Audit & Standards Committee on 12th March 2018. The assessment took place to meet the PSIAS timescales (n.b. by the end of March 2018, all internal audit services were required to have an external assessment).
The need to formalise Internal Audit's approach to using other sources of assurance i.e. assurance mapping;	**In Progress** - Three pilot exercises have now been undertaken in order to evaluate the differing approaches to assurance mapping. This area will be taken forward in 2018/19 and a suitable approach agreed and formalised. This exercise will need to take account of the work being performed within Risk Management to enhance the Strategic Risk Registers.

The work undertaken by the Internal Audit Service during 2017/18 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to this, there are no impairments or restrictions in scope or impairments in independence or objectivity during the year which prohibit the CIA or the Service from delivering the annual Head of Internal Audit opinion for 2017/18.

13. Equalities Implications

There are no direct implications arising from this report.

14. Legal Implications

There are no direct implications arising from this report.

15. Resource and Value for Money Implications

The net budget of the Internal Audit Section is estimated at £619,310 of which £53,400 relates to payments to external providers.

16. Risk Implications

Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Corporate Strategic Risk Register.

17. Climate Change Implications

There are no direct implications arising from this report.

Report author:

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List of Background Papers
Audit Management System
Annual Audit Plan & Strategy 2017/18
2017 Audit Charter
Progress Reports to Audit & Standards Committee
Various Internal Audit Reports

Recommendation Risk Ratings

At the conclusion of each audit, control weaknesses are rated based on their potential impact against the organisation and likelihood of any associated risks occurring.

The scoring matrices below are used by Auditors as a guide to assessment of each control weakness, and therefore generating the priority rating of the resultant recommendation.

Priority ratings may be adjusted subsequently; for example, in a minor system with a total budget of £100,000, financial loss of £5,000 would be considered more a more significant risk to system objectives than the matrix below would initially suggest.

Impact Ratings

Risk Type	Marginal 1	Significant 2	Fundamental 3	Catastrophic 4
Financial	Lack of VFM or overspend resulting in a financial loss below £10,000	Lack of VFM or overspend resulting in a financial loss between £10,000 and £100,000	Lack of VFM or overspend resulting in a financial loss between £100,000 and £0.5m	Lack of VFM or overspend resulting in a financial loss in excess of £0.5m
Reputation	Adverse publicity unlikely (e.g. Just can't demonstrate that probity has been observed.)	Needs careful public relations (e.g. Minor theft of property or income.)	Adverse local publicity (e.g. Minor fraud case.)	Adverse national publicity (e.g. Major fraud or corruption case.)
Legal/Regulatory	Breaches of local procedures / standards	Breaches of regulations / standards	Breaches of law punishable by fines only	Breaches of law punishable by imprisonment
Legal/Regulatory	Not an issue that would interest the External Auditors	An issue that may require further checks to satisfy the External Auditor that control is sufficient.	Would warrant mention in the Annual Audit Letter or Annual Governance Statement (AGS).	Could lead to qualification of Council's Statement of Accounts
Legal/Regulatory	Unlikely to cause complaint / litigation	High potential for complaint, litigation possible	Litigation to be expected	Litigation almost certain and difficult to defend
Performance	Doesn't materially affect a departmental performance indicator or service objective.	Has a material adverse affect on a departmental/corporate performance indicator or service objective.	Could adversely affect a number of departmental/corporate performance indicators or could seriously damage Departmental objectives / priorities.	Could call into question the Council's overall performance framework or seriously damage a Council objective / priority.
Service Delivery	Doesn't affect any identified objectives	Adversely affects a service objective	Seriously damage Departmental objective / priority	Seriously damage any Council objectives / priorities
Service Delivery	No significant disruption to service capability	Short term disruption to service capability	Short term loss of service capability	Medium term loss of service capability
Service Delivery	No more than 3 people involved	No more than 10 people involved	Up to 50 people involved	More than 50 people involved
Health & Safety	No injuries beyond "first aid" level	Medical treatment required - long term injury	Extensive, permanent injuries; long term sick	Death

Likelihood ratings:

Risk Score	Description	Example Detail Description
5	Very Likely	Likely to occur within a year / Over 80% Probability of Likelihood
4	Likely	Likely to occur within 1 to 3 Years / 60%- 80% Probability of Likelihood
3	Possible	Likely to occur within 3 to 5 Years / 40%-60% Probability of Likelihood
2	Unlikely	Likely to occur within 5 to 10 Years / 20%-40% Probability of Likelihood
1	Remote	Likely to occur greater than 10 Years / Less than 20% Probability of Likelihood

Priority Ratings Matrix

Risk Score >=	<	Recommendation Rating
1	5	Minor Priority
6	10	Low Priority
10	13	Medium Priority
15	21	High Priority

Internal Audit Assurance Ratings

Each Internal Audit report completed provides a level of assurance of either Limited, Adequate or Substantial Assurance. The following table is a guide to how assurance levels are determined. Dependent on the nature of the recommendations raised, the Internal Audit function may increase or decrease the level of assurance provided. For example a single, very significant control weakness may give rise to only one recommendation but severely compromise the effectiveness of a system and therefore result in a limited assurance report, or on occasion an audit may give rise to recommendation numbers close to the thresholds shown below for two or more categories of recommendation.

Assurance Level	Typical Findings
Limited	Either: 2+ high priority recommendations, 8+ medium priority recommendations, or 13+ low priority recommendations
Adequate	Either: 1 high priority recommendation, 3-7 medium priority recommendations, or 7-12 low priority recommendations
Substantial	0 high priority recommendations, 0-2 medium priority recommendations, and 0-6 low priority recommendations

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of Part 1 of Schedule 12A
of the Local Government Act 1972

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Local Members' Interest

N/A

Audit and Standards Committee – 13 June 2018

Special Panel of the Audit and Standards Committee for the appointment of Independent Remuneration Panel members

Recommendation/s

1. For the Audit and Standards Committee to appoint five Members to sit on the Special Panel of the Audit and Standards Committee for the purpose of recruitment of Independent Remuneration Panel Members.

Summary

2. At the County Council meeting held on 12 October 2017, it was agreed "That the Audit and Standards Committee be requested to carry out a further recruitment exercise for IRP members in 2018."

3. The Audit and Standards are requested to establish a Special Panel of the Audit and Standards Committee consisting of five Members who will shortlist and interview the applications before making recommendations to Full Council that the successful applicants be appointed to the Independent Remuneration Panel.

4. Shortlisting of Panel applicants is planned for 18 June, with interviews planned for 25 June, with a view to making recommendations to full Council on 26 July.

Report

Background

5. The County Council is required to establish and maintain an Independent Remuneration Panel to provide advice and recommendations to the Council on its Members' Allowances Scheme. The Panel meets each year to consider the recommendations to be made to the Council in respect of the level and nature of the forthcoming year's allowances.

6. The maximum number of people that can be appointed to the Independent Remuneration Panel is five. Panel members serve for a period of four years. Panel members can be re-appointed. The County Council agreed in May 2018 that an existing member, whose term of office had expired in March 2018, continues to serve for a further year. There are currently two vacancies.

Contact Officer:

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Local Members Interest
N/A

Audit and Standards Committee – 13th June 2018

Internal Audit Charter 2018/19

Recommendation

1. To approve the revisions to the Internal Audit Charter originally approved by the Audit and Standards Committee in June 2014.

Report of the Director of Finance and Resources

Background

2. The Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN) Standard 1000 require that the purpose, authority and responsibility of the internal audit activity must be defined formally in an Audit Charter. The Internal Audit Charter is a formal document setting out:

    *   internal audit's position within the organisation
    *   its reporting lines
    *   access to personnel, information and records
    *   the scope of internal audit activities
    *   what the term Board means (e.g. the Audit and Standards Committee).

3. The need for an Audit Charter was a new requirement of PSIAS and the Audit and Standards Committee approved the detailed document at its meeting in June 2014. Since this date there have been a small number of revisions which require approval. The key changes made in 2018 are highlighted within the attached document in yellow and relate to the following areas:

    *   the role of Internal Audit in relation to counter fraud work *(pages 6 & 7)*
    *   explanation of the Senior Leadership Team's role under PSIAS *(page12)*.

Equalities Implications and Climate Change Implications

4. There are no direct implications arising from this report.

Legal Implications

5. Whilst there are no direct legal implications arising from this report, the Accounts and Audit (England) Regulations 2015 specifically require that a relevant body must 'undertake an effective internal audit to evaluate the effectiveness of its risk

management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

Resource and Value for Money Implications

6. The net budget of the Internal Audit Section is estimated at £619,310 of which £53,400 relates to payments to external providers.

Risk Implications

7. Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources

Report Author

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List of Background Papers

1. Public Sector Internal Audit Standards – revised with effect from 1st April 2017.
2. Local Government Application Note – with effect from 1st April 2013
3. Accounts and Audit (England) Regulations 2015.
4. CIPFA Statement on the Role of the Head of Internal Audit in Local Government 2010
5. CIPFA IASAB Guidance - The Internal Audit Role in Counter Fraud - September 2017

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Internal Audit Charter
2018

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Contents

The Charter is a mandatory requirement of the UK Public Sector Internal Audit Standards and CIPFA's Local Government Application Note. This document also takes into account the requirements of the CIPFA statement regarding the Role of the Head of Internal Audit in Local Government (2010).

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1. Introduction

This charter defines for the internal audit activity of the County Council, its purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also aims to confirm relationships with key stakeholders. It is subject to annual approval by the Board[1].

Internal Audit has limited resources and therefore its workforce is deployed in accordance with the annual Audit Strategy having regard to relative risks and levels of assurance required, translated into an agreed annual Audit Plan and delivered through individual audit assignments. This is agreed by the Board each year.

The Audit Charter should be read in conjunction with the relevant sections of Financial Regulations of the Council, which are attached at Appendix 1.

2. Mission and Core Principles of Internal Audit

The mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. The mission statement below is that included within the updated PSIAS issued in April 2017.

'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'

In addition a set of core principles, detailed below, have also been developed which taken as a whole, articulate internal audit effectiveness. For an Internal Audit function to be considered effective, all principles should be present and operating effectively.

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive and future-focused.
- Promotes organisational improvement.

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[1] The Audit & Standards Committee is referenced in the PSIAS as the Board.

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3. Purpose, Authority and Responsibility

Purpose

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes *(UK Public Sector Internal Audit Standards and CIPFA Local Government Application Note).*

Authority

The authority for the internal audit function is derived from legislation and the County Council. The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs". The Accounts and Audit (England) Regulations 2015, specifically require that a relevant body 'must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. Proper internal audit practices for Local Government are defined as constituting adherence to the requirements of both the UK Public Sector Internal Audit Standards and CIPFA's Local Government Application Note. These requirements are considered to be mandatory; instances of non-conformance must be reported to the Board as part of the Chief Internal Auditor's (CIA's) annual outturn report. The Director of Finance and Resources has been delegated with this requirement by the Council.

Responsibility

The CIA is required to provide an annual opinion to the County Council and to the Director of Finance & Resources (Section 151 Officer) through the Audit & Standards Committee, on the adequacy and effectiveness of the risk management, governance and control environment for the whole organisation and the extent it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the County Council's needs, adds value, improves operations and helps protect public resources.

- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.

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- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

- To provide assurance that significant risks to the County Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.

- To provide advice and support to management to enable an effective control environment to be maintained.

- To promote an anti fraud, anti bribery and anti corruption culture within the Council to aid the prevention and detection of fraud.

- To investigate, in conjunction with the appropriate agencies when relevant, allegations of fraud, bribery and corruption.

- To evaluate whether the information technology governance of the Council supports its strategies and objectives.

4.   Scope

The Council's Internal Audit function is provided by an in house team supported by additional resources procured via an external support framework contract. The scope of the function includes the review of all activities (financial and operational) of Staffordshire County Council. In addition to its County Council internal audit work programme, the Internal Audit Section currently:

- Undertakes internal audit services for outside bodies where statutory powers permit.
- Conducts Comfort Fund (Social Services) audits
- May provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract documentation.
- Furthermore, the CIA has overall responsibility for the management of the Corporate Risk Register and assists in the preparation of the annual Governance Statement and Code of Corporate Governance.

In accordance with the PSIAS, most individual audits are undertaken using the risk based systems audit approach, the key elements of which are listed below:

- Identify and record the objectives, risks and controls;
- Establish the extent to which the objectives of the system are consistent with corporate priorities;
- Evaluate the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon;
- Identify any instance of over/under control;

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- Determine an appropriate strategy to test the effectiveness of controls;
- Arrive at a conclusion and produce a report leading to management actions and provide an opinion on the effectiveness of the control environment.

Where possible Internal Audit will seek to identify and place reliance on assurance work completed elsewhere within the County Council's areas of responsibility as part of the planning process. In addition Internal Audit will as part of the audit plan contribute to the development of an assurance framework for the County Council.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as 'Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming responsibility'. See section 5 regarding Audit Independence.

Internal audit does not undertake value for money studies routinely unless specifically requested.

The CIA cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control and managing the risk of fraud, corruption and potential for bribery within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, accounting records, financial processes and governance arrangements exist without depending on internal audit activity to identify weaknesses.

<u>Fraud and Corruption Related Work</u>

The role of Senior Leadership Team Members (SLT) in relation to the reporting of all instances of potential and actual irregularity affecting the finances of the Council is documented in the Council's Financial Regulations (D.4).

The internal audit role and the counter fraud roles that internal auditors will be involved in, relating to fraud and corruption work are broken down into three divisions:

- Core internal audit roles that all internal auditors should include in their risk-based approach;
- Counter fraud roles that internal audit can undertake without compromising audit independence;
- Counter fraud roles where internal audit may provide consultancy or advisory services, with safeguards.

<u>Core Internal Audit role</u> - The primary role of internal audit is to provide assurance on counter fraud arrangements and fraud risks in accordance with the standards.

The Internal Audit Section as part of its activity will evaluate the potential for the occurrence of fraud and how the Council manages its fraud risk (standard 2120.A2). To enable this, the CIA will ensure that individual internal auditors have sufficient knowledge of fraud risks and fraud risk management practice (standard 1210.A2).

Supporting counter fraud roles – The Internal Audit Section may also take on additional roles or undertake work as part of an advisory or consultancy role to support or promote the development of effective counter fraud practice in the Council. In these instances, the CIA will ensure that internal auditors have adequate proficiency to undertake the activity (standard 1210.A2). Any impairment to independence or objectivity will also be identified and managed prior to the work commencing (standard 1000).

The Internal Audit Section will carry out a thorough investigation of all potential and actual irregularities in accordance with the Section's Fraud Manual. For employee related frauds, the investigation is dealt with under the Council's Staff Disciplinary Procedure and upon conclusion; the matter may be referred to the Police. It should be noted that if the offence committed is serious and/or high value, the matter may be referred to the Police prior to the disciplinary proceedings being concluded. In these instances, the Police will be made aware of the Council's on-going investigations. It is not the normal practice of Internal Audit to issue formal cautions to suspects under the Police and Criminal Evidence Act (P.A.C.E.) 1984.

It is the responsibility of the Director of Strategy, Governance and Change to decide, based on the advice from the Director of Finance and Resources and the appropriate Senior Leadership Team Member, whether there are sufficient grounds for the matter to be reported to the Police. This is in accordance with the Council's Integrity Policy.

A fraud and corruption strategy is produced and reviewed on an annual basis. In addition to the investigation of potential irregularities, work is undertaken to promote an anti fraud culture.

 In particular:

a) Creation of an Anti-Fraud Culture:

- Raising awareness of the e learning package.
- Adherence to the recommendations contained in the Fighting Fraud Locally Strategy.
- Circulation of the Fraud-Watch Publication.
- Promotion of a Poster Campaign to raise awareness.

b) Deterrence

- Publicise both local and national cases of proven fraud within the Council.

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c) Prevention

- Specific detailed testing in vulnerable areas.

- Regular monitoring of imprest accounts to prevent misuse.

- Regular monitoring of procurement card expenditure.

d) Detection

- Participation in the Cabinet Office's national fraud initiative data matching exercise.

e) Investigation

- Hotline monitoring and intelligence gathering.

- Investigations of all areas of concern identified through routine audit, reported to management or via whistle blowing communication channels.

5. Stakeholder Roles and Audit Independence

The Audit & Standards Committee will fulfil the role of the Board for the County Council. For this purpose the Board is defined in the PSIAS/LGAN as 'the highest level of governing body charged with the responsibility to direct and/or oversee the activities and hold senior management of the organisation accountable. Typically, this includes independent Directors. Board may refer to an audit committee to which the governing body has delegated certain functions'.

The CIA reports to the Head of Financial Strategy and Support who in turn reports to the Director of Finance and Resources. Financial Regulation D.6 details alternative reporting lines if so required.

The extent of non County Council related audit work undertaken by the Section shall be limited to that defined within the audit strategy unless approved otherwise by the Director of Finance and Resources.

Internal audit is not responsible for the detailed development or implementation of new systems but will be consulted during the system development process on the control measures to be incorporated in new or amended systems. To maintain independence, the Auditor who was involved in the 'consultancy style exercise' will not take any further part in the audit process. Any significant 'consultancy' activity not already included in the annual Audit Plan which may impact on the ability to provide the required assurance opinion will be reported to the Audit & Standards Committee for approval. The nature and scope of this type of work includes facilitation, process and/or control design, training, advisory services and risk assessment support.

All directly employed staff are required to make an annual declaration to ensure that Auditors objectivity is not impaired and that any potential conflicts of interest are

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appropriately managed in line with the requirements of the Code of Ethics within the PSIAS and the Nolan Committee's Standards on the Seven Principles of Public Life. In addition all staff complete an audit declaration as part of each review which requires any conflicts of interest or impairments to be disclosed. All Internal Audit Contractor staff are also required to declare to the CIA any potential conflicts of interest at the start of any assignment.

6.   Audit Reporting

Assurance is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. Audit assurance opinions are awarded on the completion of audit reviews reflecting the efficiency and effectiveness of the controls in place. Audit opinions are ranked either as; Substantial Assurance, Adequate Assurance or Limited Assurance. Recommendations made will be ranked as; High, Medium or Low depending upon the relative importance of the audit finding. The methodology used is attached at Appendix 2.

Work undertaken by Internal Audit will normally be concluded by the production of a formal written report to the respective individuals detailed below, dependent on the nature of the review and the opinion category.

Distribution	High Risk Reviews (Substantial Assurance / Adequate Assurance)	High Risk Reviews (Limited Assurance)	Other Reviews (Limited Assurance)	Major Irregularity / Special Investigation – (loss > £10,000)	Other Reviews (Substantial Assurance / Adequate Assurance)
Operational Manager	✔	✔	✔	✔	✔
Director of Finance & Resources	✔	✔	✔	✔	
Relevant Director	✔	✔	✔	✔	
Director of Strategy, Governance & Change				✔	
Local Member (where applicable)				✔	
Relevant Cabinet Member	✔	✔	✔	✔	
Cabinet Member for Finance & Corporate Matters		✔	✔	✔	
Audit & Standards Committee Members	✔	✔	✔	✔	

7.   Role of the Head of Internal Audit (CIA)

The CIA must be a suitably professionally qualified individual who has the appropriate

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skills, knowledge, experience and resources to effectively perform in the role. They should also ensure that they take part in continuing professional development activities to remain up to date with developments within Internal Audit.

The CIA must establish an environment of trust, confidence and integrity in the work of the Internal Audit Section within the County Council.

The CIA will have direct access to the Chief Financial Officer, Monitoring Officer, Head of Paid Service, Audit & Standards Committee Chairman and Members as required. The CIA will brief the Audit & Standards Committee Chairman regarding the content of Audit & Standards Committee agenda papers, including agreeing future agenda items and potential areas for training.

The CIA is responsible for the overall development of the Audit Strategy and annual Internal Audit Plan, which demonstrates value for money to the organisation.

The UK Public Sector Internal Audit Standards require the CIA to report at the top of the organisation and this will be achieved by:

- The Internal Audit Strategy and Charter (incorporating detailed terms of reference); including any amendments to them are reported to the Audit & Standards Committee annually for formal approval.
- The annual Internal Audit Plan is produced by the CIA taking account of the Council's risk framework and after input from Members of SLT and the Council's External Auditor. It is then presented to SLT and subsequently Audit & Standards Committee for endorsement prior to approval by the Director of Finance and Resources.
- The adequacy, or otherwise of the level of internal audit resources (as determined by the CIA) and the independence of internal audit is reported annually to the Audit & Standards Committee. The approach to determining resources required is outlined in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk/control issues arising are reported to the Audit & Standards Committee.
- Annually to report the results of the quality assurance exercise to the Audit & Standards Committee.
- The CIA ensures that the requirements of the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note are met in full and adherence, together with any areas of non-conformance to these requirements reported as part of the annual review of the effectiveness of internal audit report to the Audit & Standards Committee. This will incorporate where the CIA has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be put in place to limit impairments to independence or objectivity.

The CIA should be consulted on all proposed major projects, programmes and policy initiatives. This is achieved through the linkage with the Transformation Support Unit

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(TSU) and forms a key part of the annual Audit Plan. Business as Usual change projects are evaluated as part of the annual risk assessment planning process to determine the annual Internal Audit Plan.

The CIA should be consulted on proposed changes to the following key policy documents:

    a. Financial Regulations
    b. Procurement Regulations
    c. Integrity Policy
    d. Whistleblowing policy
    e. Officers' Code of Conduct
    f. Risk Management Policy

Where partnership/ joint venture/ outsourced and shared service arrangements exist that require joint working with other organisations and their respective auditors, the CIA will produce a protocol outlining the respective roles and responsibilities of each partner, access to working papers, confidentiality and sharing of audit reports including reporting to Audit & Standards Committee (where appropriate).

As the County Council completes its transformation into a Commissioning Authority the CIA must ensure that suitable clauses are included within Contract documentation to ensure that internal audit retains the right of access to documents/ personnel and systems as and when required.

8. Role of the Director of Finance and Resources

The Director of Finance and Resources has overall delegated responsibility from the Council for the Internal Audit function. Following consultation with the Senior Leadership Team and the Audit & Standards Committee he will approve the annual Audit Plan.

The Director of Finance and Resources will ensure that he is periodically briefed by the CIA on the following:

- Overall progress against the annual Audit Plan
- Those audit areas where a "Limited Assurance" opinion has been given
- Progress on the implementation of all "high" level audit recommendations
- Progress on all fraud and irregularity investigations carried out by the Internal Audit Section.

Following on from the above, the Director of Finance and Resources will ensure that update reports are reported regularly to the Audit & Standards Committee, to include an annual outturn report.

9. Role of Senior Leadership Team Members

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Relevant extracts of those reports referred to above will receive prior consideration by the relevant SLT Member. This includes any fraud and corruption related exercises.

In order to assist the discharge of those responsibilities defined at Appendix 1, SLT Members shall appoint a senior officer to act as the first point of contact between Internal Audit and their area of responsibility.

The CIA will present the annual Internal Audit Plan and Audit Strategy to SLT members for their consideration and approval. The annual outturn report, together with the overall opinion of the Organisation's control environment will also be circulated to SLT where appropriate.

SLT Members are also responsible for ensuring that staff within their areas participate fully in the audit planning process and actively enforce the implementation of agreed audit recommendations by the required date. The quality of these relationships impacts on the effective delivery of the internal audit service, its reputation and independence. Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives.

10.   Responsibilities of the Audit & Standards Committee

The Audit & Standards Committee is a key component of the Council's governance framework. Their role is to operate as 'those charged with governance' and provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards the Audit & Standards Committee performs the role of the 'Board'.

Following consideration, Members of the Audit & Standards Committee have determined that they wish to receive the following documents:

- The annual Audit Plan

- The annual assessment of Internal Audit to ensure that it meets the requirements set out in the Accounts and Audit Regulations 2015 and UK Public Sector Internal Audit Standards

- The results of the external assessment of Internal Audit which must be performed every 5 years wef April 2013 (which was completed January 2018)

- Regular updates on progress against High Level Recommendations

- The annual outturn report including results of anti-fraud and corruption work / special investigations

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- Copies of Fraud-Watch Publication

- A copy of the audit report for those reviews given an opinion of "Limited Assurance"

- A copy of the audit report for all major special investigations (i.e. those areas where the potential loss is greater than £10,000)

- A copy of the audit report/ briefing note for those reviews awarded the greatest risk score irrespective of opinion (The top 10 risk areas within the Audit Plan).

Note

Notwithstanding the above, all audit reports will be made available to members of the Audit & Standards Committee (either individually or collectively) upon request.

Members of the Audit & Standards Committee will agree key performance targets for the Internal Audit Section and ensure that they are reported upon as part of the annual outturn report and the review of the effectiveness of internal audit. Currently these are:

- Draft reports have been issued for at least 90% of the annual Audit Plan.

- Average score for quality questionnaires from auditees is equal to or exceeds the 'good' standard.

11. Relationship with External Audit

Internal Audit will liaise with the external auditors of the County Council in order to:

- Foster a co-operative and professional working relationship
- Eliminate the incidence of duplication of effort
- Ensure appropriate sharing of information
- Co-ordinate the overall audit effort.

Following on from the above, an Internal / External Audit understanding has been developed and will be subject to review on an annual basis.

12. Due Professional Care

The Internal Audit Section (including its external providers) will operate from April 2013 in accordance with the professional standards and practice statements included within the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Instances of non-conformance with the standards must be reported to the Audit & Standards Committee.

In order to demonstrate that due care has been exercised, the internal auditor is expected to:

- Exercise due professional care based upon appropriate experience, training,

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ability, integrity and objectivity

- Apply confidentiality as required by law and best practice, and
- Obtain and record sufficient audit evidence to support their findings and recommendations
- Show that audit work has been performed competently and in a way which is consistent with applicable audit standards.

13. Quality Assurance

The CIA will maintain a Quality Assurance and Improvement Programme to review all aspects of activity of the Internal Audit Section (including its external providers) to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. An external assessment will be undertaken at least once every five years by a suitably qualified, independent assessor as required by the Public Sector Internal Audit Standards. The timing, form of the assessment, qualifications of any external assessor, results and any resultant improvement plans will be agreed with and reported to the Audit & Standards Committee in the annual report. Significant deviations will be considered for inclusion in the Annual Governance Statement.

14. Audit Processes

An Audit Manual will be produced detailing the procedures to be followed at each stage of the audit process including an instruction document for the operation of the electronic working paper solution. The content of the Manual will be reviewed regularly and will include details of the arrangements to be followed in the event of suspected irregularities. The CIA shall periodically ensure adherence to its content. SLT Members will be consulted on any significant changes to the Manual.

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FINANCIAL REGULATION D – AUDIT, CONTROL AND IRREGULARITIES

D.1 The County Council has determined that the Director of Finance and Resources is responsible for conducting a continuous internal audit in accordance with the Accounts and Audit (England) Regulations 2011

D.2 SLT Members will co-operate with, and provide all necessary information for, the Internal Audit Section and the Council's External Auditor.

D.3 It is the responsibility of SLT Members to establish effective and efficient arrangements for internal control. SLT Members will seek the advice of the Director of Finance and Resources in those instances of a material nature where the principles of internal control prove difficult to implement or maintain.

D.4 The Director of Finance and Resources must be notified immediately of all instances of potential and actual irregularity affecting the finances of the Council.

D.5 The Director of Finance and Resources, or his authorised representative, must be afforded a reasonable right of entry to property of the County Council and must be granted access to such documents, records and computer files as appear to him to be necessary for the purpose of the audit. Furthermore, he will be entitled to require from any officer of the Council such information and explanation as he thinks necessary for that audit.

D.6 Subject to any related statutory requirements, the Chief Internal Auditor will have the right to report directly to the Chief Executive, to any member of the Cabinet and the Audit & Standards Committee.

Response to audit reports

D.7 SLT Members must consider and respond promptly to recommendations in audit reports (whether internal or external) and ensure that any agreed actions arising from audit recommendations are executed in a timely and efficient fashion.

Internal Control and Check

D.8 The duty of providing information, calculating, checking and recording the sums due to or from the Council must be separated as far as possible from the duty of collecting or disbursing these sums.

D.9 Wherever possible, arrangements must be made to ensure that: -
(a) the ordering of works, goods and services
(b) the acknowledgment of their receipt, and
(c) the examination of invoices/accounts are not carried out by the same person.

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Audit Opinions

Recommendation Risk Ratings

At the conclusion of each audit, control weaknesses are rated based on their potential impact against the organisation, and likelihood of any associated risks occurring.
The scoring matrices below are used by Auditors as a guide to assessment of each control weakness, and therefore generating the priority rating of the resultant recommendation.

Priority ratings may subsequently be adjusted; for example, in a minor system with a total budget of £100,000, financial loss of £5,000 would be considered more a more significant risk to system objectives than the matrix below would initially suggest.

Impact Ratings

Risk Type	Marginal 1	Significant 2	Fundamental 3	Catastrophic 4
Financial	Lack of VFM or overspend resulting in a financial loss below £10,000	Lack of VFM or overspend resulting in a financial loss between £10,000 and £100,000	Lack of VFM or overspend resulting in a financial loss between £100,000 and £0.5m	Lack of VFM or overspend resulting in a financial loss in excess of £0.5m
Reputation	Adverse publicity unlikely (e.g. Just can't demonstrate that probity has been observed.)	Needs careful public relations (e.g. Minor theft of property or income.)	Adverse local publicity (e.g. Minor fraud case.)	Adverse national publicity (e.g. Major fraud or corruption case.)
Legal/Regulatory	Breaches of local procedures / standards	Breaches of regulations / standards	Breaches of law punishable by fines only	Breaches of law punishable by imprisonment
Legal/Regulatory	Not an issue that would interest the External Auditors	An issue that may require further checks to satisfy the External Auditor that control is sufficient.	Would warrant mention in the Annual Audit Letter or Annual Governance Statement (AGS).	Could lead to qualification of Council's Statement of Accounts
Legal/Regulatory	Unlikely to cause complaint / litigation	High potential for complaint, litigation possible	Litigation to be expected	Litigation almost certain and difficult to defend
Performance	Doesn't materially affect a departmental performance indicator or service objective.	Has a material adverse affect on a departmental/corporate performance indicator or service objective.	Could adversely affect a number of departmental/corporate performance indicators or could seriously damage Departmental objectives / priorities.	Could call into question the Council's overall performance framework or seriously damage a Council objective / priority.
Service Delivery	Doesn't affect any identified objectives	Adversely affects a service objective	Seriously damage Departmental objective / priority	Seriously damage any Council objectives / priorities
Service Delivery	No significant disruption to service capability	Short term disruption to service capability	Short term loss of service capability	Medium term loss of service capability
Service Delivery	No more than 3 people involved	No more than 10 people involved	Up to 50 people involved	More than 50 people involved
Health & Safety	No injuries beyond "first aid" level	Medical treatment required - long term injury	Extensive, permanent injuries; long term sick	Death

Likelihood ratings:

Risk Score	Description	Example Detail Description
5	Very Likely	Likely to occur within a year / Over 80% Probability of Likelihood
4	Likely	Likely to occur within 1 to 3 Years / 60%- 80% Probability of Likelihood
3	Possible	Likely to occur within 3 to 5 Years / 40%-60% Probability of Likelihood
2	Unlikely	Likely to occur within 5 to 10 Years / 20%-40% Probability of Likelihood
1	Remote	Likely to occur greater than 10 Years / Less than 20% Probability of Likelihood

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Priority Ratings Matrix

Internal Audit Assurance Ratings

Each Internal Audit report completed provides a level of assurance of; Limited, Satisfactory or Substantial Assurance. The following table is a guide to how assurance levels are determined. Dependent on the nature of the recommendations raised, the auditor may increase or decrease the level of assurance provided. For example a single very significant control weakness may give rise to only one recommendation, but severely compromise the effectiveness of a system and therefore result in a limited assurance report, or on occasion an audit may give rise to recommendation numbers close to the thresholds shown below for two or more categories of recommendation.

Assurance Level	Typical Findings
Limited	Either: 2+ high priority recommendations, 8+ medium priority recommendations, or 13+ low priority recommendations
Adequate	Either: 1 high priority recommendation, 3-7 medium priority recommendations, or 7-12 low priority recommendations
Substantial	0 high priority recommendations, 0-2 medium priority recommendations, and 0-6 low priority recommendations

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Local Members Interest
N/A

Audit and Standards Committee – 13 June 2018

Proposed Internal Audit Strategy & Plan 2018/19

Recommendations

1. To review the proposed content and coverage of the Internal Audit Strategy & Plan 2018/19.

2. To recommend approval of the Internal Audit Plan for 2018/19 to the Director of Finance and Resources.

Report of the Director of Finance and Resources

3. The proposed Internal Audit Plan is attached at **Appendix 1** and will be supported by a PowerPoint presentation. The plan has been prepared following discussion with members of the Senior Leadership Team (SLT), Wider Leadership Team (WLT) and Operational Management where appropriate during the period February to March 2018 and is presented to Members for final endorsement.

4. The Internal Audit Plan has been prepared in line with the Audit Strategy detailed in the report on page 3. All potential reviews have been allocated a risk score, which has been calculated using the risk model and the specific methodology outlined in the report at Appendix A. In general, only the high-level risk areas have been included in the Internal Audit Plan as per the Strategy. As stated at section 3 above, the agreement process for this year's plan included detailed discussions with members of the Senior Leadership Team and their Lead Commissioners to highlight the proposed Internal Audit work to ensure that it has addressed the significant risks facing the Council and assists in the achievement of the main priority outcomes.

5. Certain elements of the plan must be done regardless of risk score, mainly surrounding the work undertaken to support the requirements of grant allocations. Emphasis will continue to be placed on fraud and corruption work, particularly in relation to developing the proactive elements of the plan and increasing the profile of the Counter Fraud work. Compliance work within Schools will continue to focus on the key risk areas of income, procurement and payroll controls.

6. A general level of contingency time has been included, which is the same as in the previous year. It is recognised that the Internal Audit Plan needs to be reviewed continuously and remain sufficiently flexible to ensure that it is focused fully on the Council's principal risks (both current and emerging); hence it may change throughout the year. Any major revisions will be reported to future meetings of the Audit & Standards Committee.

7.   In line with the Audit Strategy, the top risk audits/reviews for the County Council have been assessed as being:

- Medium Term Financial Strategy –Delivery Plan;
- Digital Development Programme;
- Strategic Property Asset Management and Governance;
- Liberata Payroll System;
- Care Director (Adults & Children's Modules);
- Adult & Children's Financial Services Review Programme;
- Home & Community Care Contracts;
- Cyber Assurance –Data Breach Incidents & Response Plans/Patch Management;
- General Data Protection Regulations (GDPR); and
- Children & Families System Transformation: Family Support Contracts.

8.   CIPFA's Audit Committees – Practical Guidance for Local Authorities 2018 publication includes the following core functions around Internal Audit relevant to the annual plan approval process:

- to ensure that the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Internal Audit opinion.

- to confirm that the Internal Audit Plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risk and priorities during the year.

- to ensure that there are sufficient resources within Internal Audit to deliver the plan.

Equalities Implications/ Legal Implications/ Risk Implications

9.   There are no direct equalities implications arising from this report.

10.   Whilst there are no direct legal implications arising from this report, the Accounts and Audit (England) Regulations 2015 specifically require that a relevant body must 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

11.   Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Resource and Value for Money Implications

12.   The net budget of the Internal Audit Section is estimated at £619,310 of which £53,400 relates to payments to external providers.

Climate Change Implications

13.   There are no direct implications arising from this report.

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Internal Audit Strategy & Plan

2018/19

Staffordshire County Council

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Introduction

1. This report summarises the proposed work of Internal Audit for 2018/19. This has been developed in line with the Internal Audit Charter. The aim is to give an overview of areas to be covered during the year and to provide an opportunity to comment on the proposed coverage.

2. The audit plan has been developed to allow sufficient flexibility to respond to change which will happen during the year. Whilst every effort is made to deliver the plan as shown there will always be the need to respond to emerging risks and changing circumstances. The plan is therefore a statement of intent – our liaison meetings with senior management will ensure that it is reviewed regularly.

3. Internal Audit is a statutory service required by the Accounts and Audit Regulations 2015. It is also a key source of independent assurance for management, designed to add value and improve how the Council operates. The results of our work feed into the Council's Annual Governance Statement.

4. The work is performed in conformance with the UK Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN). These require that the scope of Internal Audit covers the whole range of the Council's activities, seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the County Council, which has been established to:
   - Achieve strategic objectives.
   - Ensure effective and efficient operational systems and programmes.
   - Safeguard assets and interests of all kinds.
   - Ensure the reliability and integrity of financial and operational information.
   - Ensure economic, efficient and effective use of resources.
   - Ensure compliance with established policies, procedures, laws, regulations and contracts.

Our Internal Audit Strategy

5. Our Internal Audit Strategy has been developed to take into account management's assessment of risk and key organisational objectives and priorities. This is obtained from the contents of the Corporate Risk Registers, listing of key critical services including IT systems, External Audit considerations, other internal assurance providers (i.e. Health & Safety and Information Governance Officers) and conversations with Senior Management to discuss potential changes/ areas of concern, including consideration of fraud risks within their area of control.

6. Also we use our own risk assessment against each activity assessing their materiality, sensitivity, significance and stability – ranking each area as high, medium or low risk. This allows each possible area to be prioritised based on risk, which then determines whether or not it will be included in the audit plan. A copy of the full risk assessment methodology is included in Appendix A.

7. The plan has been constructed to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion.

8. The annual risk based plan is produced based on the following key principles:

- Assurance reviews with a high risk (i.e. >60%) ranking should be completed subject to variation as agreed with the Director of Finance & Resources.
- Identification of 'Top Ten Risk' Reviews.
- Key Financial systems – reviewed on a cyclical basis.
- A risk based Schools' audit strategy, approved by the Section 151 Officer, will be completed.
- An initial allocation of 200 days to conduct Special Investigations.
- An initial contingency allocation – variable year on year.
- Time to undertake pro-active counter fraud work.
- Risk based programme of compliance reviews.

9. We will work to co-ordinate our work on the key risk areas with the Council's External Auditors, Ernst & Young (EY) during 2018/19 through having a joint understanding which agrees where EY may consider the results of our work. This ensures that the Council gets the most out of its combined audit resource – keeping audit fees low.

Draft Internal Audit Plan 2018/19

10. We propose to allocate resources across each Service Area as shown in figure 1 with further details in Appendices B, C and D.

11. Top risks facing Councils continue to include pressures on finances and resources; changes in demand and demography and the impact of welfare reforms.

Figure 1 – Analysis of Audit Plan

Allocation of Audit Plan by Service

- Management Time - 8%
- Economy, Infrastructure & Skills - 11%
- Families & Communities - 15%
- Finance & Resources - 19%
- Health & Care - 11%
- ICT - 4%
- Strategy & Governance & Change - 4%
- Cross Cutting Reviews - 2%
- Grant Verification Work - 3%
- Counter Fraud - 23%
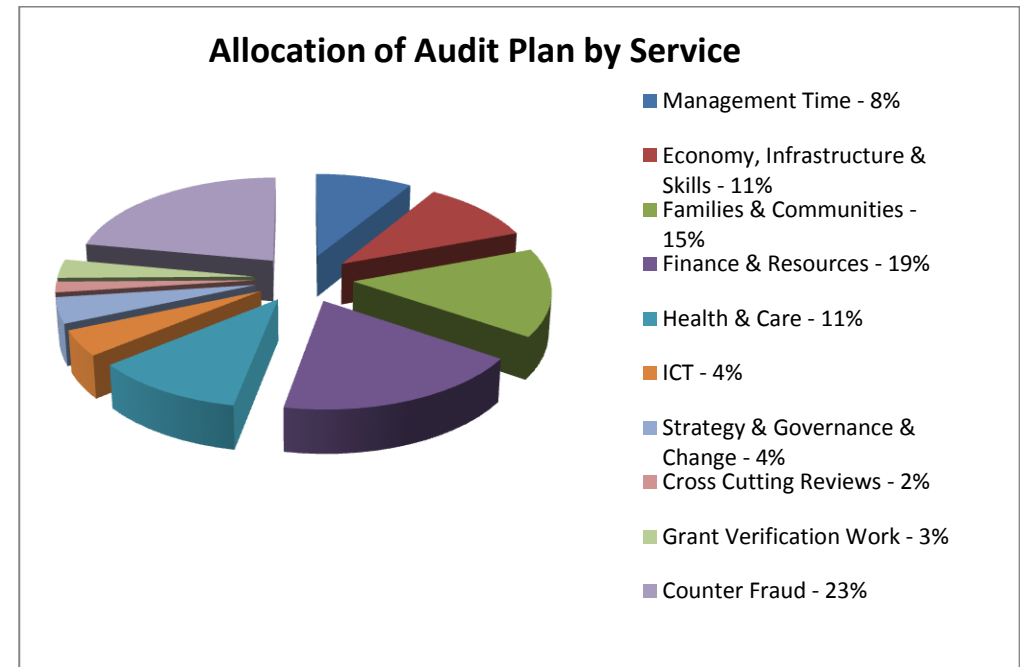
12. The top risk audits/reviews for the County Council have been assessed as being the following areas:

1. Medium Term Financial Strategy – Delivery Plan
2. Digital Development Programme
3. Strategic Property Asset Management and Governance
4. Liberata Payroll System
5. Care Director (Adults & Children's Modules)
6. Adult & Children's Financial Services Review Programme

7. Home & Community Care Contract
8. Cyber Assurance – Data Breach Incidents & Response Plans/Patch Management
9. General Data Protection Regulations (GDPR)
10.Children & Families System Transformation: Family Support Contracts

13. The full report for these areas will be issued to Audit & Standards Committee Members once the report has been finalised.

Draft Counter Fraud Audit Plan 2018/19

14. We propose to allocate resources to our counter fraud work as per the details in Appendix C. This provides a robust response to Central Government's expectations for tackling fraud and corruption. This demonstrates the Council's continued commitment to ensuring good governance during a period of significant change to service delivery.

Resources

15. The total resource requirement for Staffordshire County Council in 2018/19 is 2065.5 days. This is comparable with the level of coverage delivered in 2017/18.

16. The Section also provides and receives income for the delivery of the internal audit service/management, for the following External Clients:

- Staffordshire and Stoke on Trent Fire & Rescue;
- South Staffordshire District Council;
- Staffordshire Academies (via Entrust);
- Staffordshire Pensions Fund; and
- Comfort funds/Joint Committee Work.

17. The net income generated from this arrangement is £122,000 p.a.

18. The delivery model for the Internal Audit Service is mixed – a combination of in-house staff and external staff via a Framework Contract. This allows the section to be flexible and respond to peaks and troughs in demand and to buy in specialist resources as required. Use of the external Internal Audit framework will continue in 2018/19.

19. There are sufficient resources available to deliver the audit plans as detailed in Appendices B, C and D. This helps to ensure that the Council meets the requirements of the Accounts and Audit Regulations 2015 for maintaining an adequate and effective internal audit function and governance, risk and internal control environment.

Figure 2 – Allocation of Resources by Client

Allocation of Resources by Client

Client	Percentage
Joint Committee Work	0.4%
South Staffordshire DC	4%
Academies	3.4%
Staffordshire Police	0.0%
Staffordshire Fire	3.4%
Staffordshire Pensions Fund	2.7%
SCC Comfort Funds	0.6%
SCC - Counter Fraud	19%
SCC - Grants	2.7%
SCC - Assurance Mapping/CGWG/STP	1.5%
SCC- ICT	3.8%
SCC Assurance	51%
Management Time/Contingency	7.5%
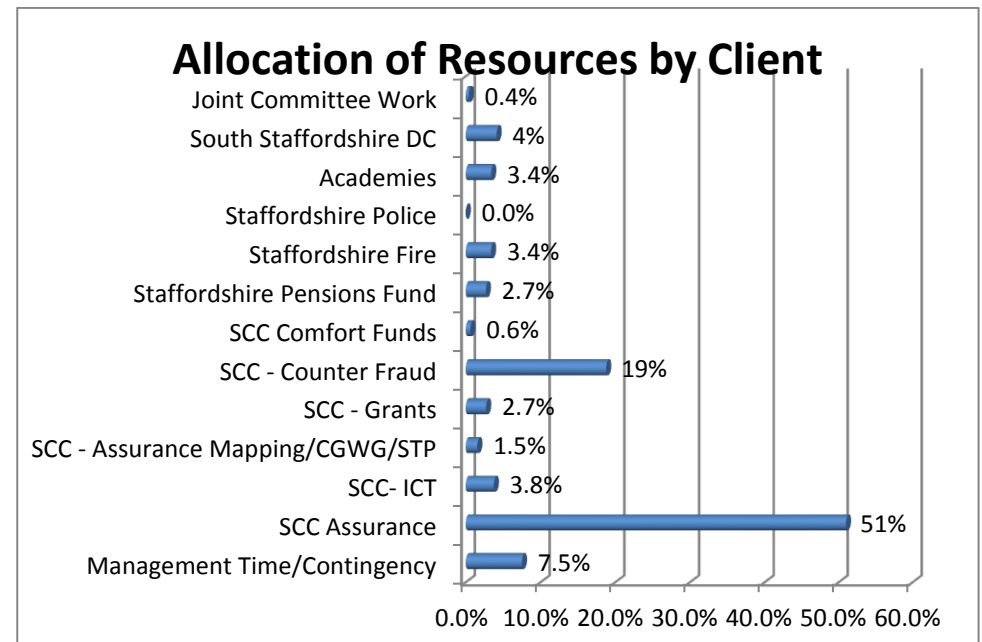
Performance & Quality Assurance Framework

20. Internal Audit within Staffordshire County Council operates in conformance with standards of best practice applicable to internal audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. The Internal Audit team offer a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit processes, application of the Quality Assurance Framework (Appendix E) and the training and development programme for staff.

21. The Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication.

22. The Internal Audit Charter sets out the role, responsibilities and authority of the Internal Audit Service within the County Council. This was initially approved in June 2014 and any amendments to its contents are endorsed by the Audit & Standards Committee annually.

23. Internal Audit remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in such a way that allows them to make impartial and effective professional judgements and recommendations.

24. The Section use a number of ways to monitor performance, respond to feedback and identify ways in which to improve the service provided. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

25. The current performance measures are set out below in Figure 3 for information

Figure 3 – Current Performance Measures

Performance Indicator	Target
Reports issued to draft report stage:	
• Assurance Reports	90%
• Compliance Reports	90%
Average score for Quality Questionnaires from clients is equal to or exceeds the good standard:	
• Assurance Reports	90%
• Compliance Reports	90%

Service Plan Priorities/Challenges 2018/19

- To assist in the development of the digital agenda to ensure that the control environment remains strong whilst exploiting the opportunities for more streamlined cost efficient operations.
- To exploit the use of IT and Computer Assisted Audit Techniques (CAATS) to expand the level of assurance provided to senior management across its operations in the most cost efficient and effective way. To include the development of continuous controls monitoring to give greater comfort over fraud risks faced by the Council.
- To develop and adopt the Service's preferred approach to assurance mapping to ensure that Internal Audit resources are utilised to their maximum to focus on the key risks faced by the Council.

- To raise the profile of the Counter Fraud Work Programme across the Council and to purse the development of a pan Staffordshire Counter Fraud Team to become a centre of excellence for counter fraud in the Region.
- To ensure that the Service continues to enhance and develop its operations to maintain its status within the Council and with its external clients as a competent, professional and respected Service which conforms to the PSIAS and the LGAN. As part of this, consideration will be given to supplementing the knowledge of the in-house team via use of non-audit professionals/pool of associates.
- To pursue further partnership working with the Staffordshire Districts and evaluate alternative delivery models to ensure that internal audit resources are used across Staffordshire in the most cost effective way
- To fully embed the functionality of the Service's computerised Audit Management System and working paper solution including enhanced reporting and management information to senior management on their systems of control.

Appendix A – Planning Risk Assessment Methodology

1. **Materiality X 2**
   a) *Financial value (income/expenditure), materiality, size of budget*
   Score between 1 (up to £100,000) 2 (up to £250,000) 3 (up to £1m) 4(up to £5m)
   and 5 (above £5m)
   b) *No of transactions*
   Score between 1 (a small number of transactions per year) and 5 (significant
   numbers of daily transactions)

2. **Impact/Sensitivity X2**
   a) *Links to Strategic Plan 2018-2022/Political sensitivity*
   1=No links to Strategic Plan/ and/or no political sensitivity
   2 =No links to Strategic Plan / and/or minimal political sensitivity
   3=Indirect links with Strategic Plan/ and/or low level of political sensitivity
   4=Direct links with Strategic Plan/ and/or medium level of political sensitivity
   5=Direct links with Strategic Plan/ and/or high level of political sensitivity

   b) *Non-financial impact e.g. reputation*
   1= Managed /reported to Business Unit -Local Media (short term duration)
   2= Managed /reported to Heads of Service. Local media (Medium/Long Term duration)
   3= Managed /reported to Senior Leadership Team and Members Regional media
       (short term)
   4= Managed /reported to Members and Cabinet Regional/National media (Medium/
       Long Term duration)
   5= Third Party intervention Public Interest Group, National/International media
       (Medium/Long Term duration)

   c) *Contained in the Corporate Risk Register*
   1 = No
   5 = Yes

   d) *Key Partnership -* This considers how important the partnership is to the achievement
   of the Council's Outcomes. Failure to deliver the objectives of the partnership poses a
   significant risk to the Organisation.
   1 = No
   5 = Yes

3. **Audit View - Previous Assurance Category**
   1 = Substantial Assurance
   2 = Adequate Assurance
   3 = No Opinion has previously been given
   4 = Consultancy – system under development
   5 = Limited Assurance

4. **Time since previous audit**
   1 =Audit carried out last year
   2 =Audit carried out 2 years ago
   3 =Audit carried out 3 years ago
   4 =Audit carried out 4 years ago
   5 =Audit carried out 5 years ago or more or where there has been no previous audit
       coverage

5. **Linkage to Risk Management - Controls Assurance**
   1 = External Assessment reports available – positive assurance provided
   2.= Internal Controls assurance statement available – positive assurance provided.
   3.= Internal Controls assurance statement available – significant risks identified.
   4.= External Assessment reports available – control weaknesses identified
   5.= Nothing available

6. **Fraud**
   a) *Past experience or occurrence of fraud/irregularity*
   Score between 1 (no knowledge/experience of fraudulent activity/irregularity) and
    5 (repeated occurrence of fraud/irregularity or experience of fraud/irregularity with
   significant financial value
   b) *Inherent risk of fraud within the system.*
   Score between 1 (little known scope for intentional manipulation) and 5 (significant
   scope for intentional manipulation.)

7. **Stability of the System**
   1.= Stable system, nothing has changed.
   2.= Stable system, changes proposed in year/ short term
   3.= New System in operation
   4.= System under development – limited to a specific service area
   5.= System under development – complex area affecting the whole of the County
       Council.

Appendix B – Draft Internal Audit Plan 2018/19

Area	No of Days	Indicative Scope
Families & Communities – Helen Riley		
Children & Families System Transformation: Family Support Contracts	15	The Children & Families System Transformation is aimed at reducing demand for services and improving outcomes for children and families. In order to do this, new models of operation have been implemented including the letting of family support contracts. The funding for these contracts comes from a variety of areas, early years, building resilient families and schools DSG. Internal Audit will review the governance surrounding the funding and how effectively it is being spent from a sample of the contracts.
Children & Families System Transformation: Early Years Offer - Children's Centres	12	The transformation of the Children's Centres has been a key part of the Children & Families System Transformation, with the reduction in numbers from 50 to 11. The service delivery covers three elements and management has requested a review of the early year's nursery provision and its funding. Scope to be determined.
SEND Transformation - Governance	15	Service is under review to redesign support for people with SEND to ensure they maximise their independence. As part of review, the Service will develop a governance structure to define roles, responsibilities and reporting structures. Management has requested that Internal Audit support and advise on the governance arrangements throughout the year as required.
Children's Services - Health Assessments	20	SCC volunteered to be a pilot for the new Ofsted Framework for the inspection of children's social care services and received a good rating. There were several areas for improvement one of which, related to timely initial health assessments for children coming into care. As a result, the Service has reviewed the processes and issued new guidance. Management would like Internal Audit to review the health assessments to ensure that they are following the new processes in a timely manner and if not the reasons for this. The sample will be taken from across all teams and will be for children coming into care for the first time after the processes have been implemented. Additionally, the review will cover the business support process as part of any initial health assessment.
Children's Services - Management Oversight of Case Files	20	Following on from the above, the pilot Ofsted Framework inspection of children's social care services also highlighted that improvements could be made to the management oversight of case files. The Service has requested that Internal Audit review this area to ensure that there is effective management oversight of case files with a sample of files being taken from across all teams.
Countryside Estate	5	A delivery model for the Countryside Estate has been developed that involves the use of the community to manage country parks. A business case will be developed during 2018/19 on the future management of the estate. Management has requested Internal Audit review the robustness of the business case.
Arts & Museums - Collections (inc Outreach and Exhibitions)	10	The Museum service is moving its collection from the Shugborough Estate during 2018, with a view to transitioning some of it elsewhere, either loan, storage or disposal. There is a significant value within the store (£4m+) and management would like Internal Audit to undertake a stores audit in 2018/19.
Children's Services - Administration Processes (Section 17)	20	Management has requested a review of the systems in place for the processing of payments by the administrative staff within Districts (sample to be taken across all teams).
Children's Services- Section 17 Budgets - Consistency of Application	15	Management has also requested a review of the section 17 budgets for consistency of application across the teams for; Through Care, Children's Disability and Court Planning. Review will take place across a sample of the teams.
High Schools Compliance Audit	30	Compliance with approved policies and procedures for key risk areas in accordance with Keeping Your Balance standards.
Primary/Middle/Special Schools Compliance Audit	50	Compliance with approved policies and procedures for key risk areas in accordance with Keeping Your Balance standards.

Area	No of Days	Indicative Scope
Themed Audits in Schools	50	Audit work will review the procedures operating in a sample of schools to ensure they are in accordance with Authority policy. There will be at least one theme per annum which could include the following areas; safer recruitment, community facilities, out of hours payments or payroll services.
Looked After Children - Business/Placement Unit : Contracts & Monitoring	15	Due to the number and size of the contracts within the Placement Unit and the need to ensure as part of Children's Transformation that commissioning has been undertaken effectively, management has requested further work in this area. Scope to be determined during the year.
Public Protection - Claims Management Regulation Unit	7	The Claims Management Regulation Unit handles and processes fees amounting to £ms each year on behalf of the Ministry of Justice and management has requested that this area is subject to internal audit scrutiny in year to provide assurance that the financial processes and controls are operating as expected for the receipt and banking of income and expenses (High level review).
Earned Autonomy	12	The Service has been successful in submitting a bid to the Department of Communities and Local Government for Earned Autonomy. Management has requested assurance over the effectiveness of District Boards in using delegated funding to respond to the needs of the family.
Schools General including Academies Conversion requirements and development/charging	15	Audit information required as part of the conversion to academies.
Total No of Days	311	
Economy, Infrastructure and Skills – Darryl Eyers		
Infrastructure + Contract (Amey)	40	To provide on-going assurance over the Infrastructure+ Contract awarded in March 2014 (£40m p.a.). Internal Audit assurance is required in the following areas during 2018/19:- • an evaluation of the quality and management systems and assurance processes covering the operations of the I+ contract i.e. the Quality Management Systems; and Amey's sources of assurance (their own IA activity) (15 days); • To review the processes and controls in place when Amey Consulting and Amey Highways are project managing, supervising as well as delivering highways works (10 days); • Compliance with the Finance manual regarding cost allocations and income collection (are Amey identifying and collecting all income due to the Council) (10 days); and • Risk and Liability - Highways Insurance Claims - evaluate correct categorisation of liability regarding insurance claims (5 days)
Economic Regeneration Capital Schemes	15	The County Council's capital budget included in the MTFS is £119.3million for 2018/19. Of this, economic regeneration projects have a capital budget of £24.7m for the period 2018/19. In 2018/19, Internal Audit will select a sample of economic capital schemes and give assurance over areas such as governance arrangements; procurement activities; monitoring and management of schemes as well as payment controls. (Redhill capital scheme and Keele IC6 should be included within the sample of schemes chosen for review).

Area	No of Days	Indicative Scope
Keele Science Park - IC5 Keele University - Economic Regeneration Scheme	7	On the 18th May 2011 the Cabinet approved a £6.8mmillion loan to build a 30,000 square foot new office incubator (IC5) unit at the Keele University science and business park In return for the loan, the University of Keele has granted the Council a 125 lease on the unit and the rental income will be used to repay the borrowings and then generate income for the Council. IC5 - Keele was completed and opened to businesses on 1st August 2016. The innovation centre is now fully occupied and Keele are managing the tenants on our behalf, and pass on any surplus rent income to SCC. In 2018/19, Internal Audit will review the management of this process and the rental income being received by SCC to ensure all monies due to the Council have been received in full.
A50 Corridor projects	12	The A50 Growth Corridor projects are part of a multi-million pound Government investment. Highways England manages the A50 trunk road. This project is being managed through separate and discrete projects by Highways England. Staffordshire County Council is delivering Project A: - Project A: Western Junction This was being carried out by Carillion and project managed by Amey on our behalf as part of the Infrastructure + strategic partnership. However, January 2018 saw the collapse of Carillion. In light of this development and the value of the project (Circa £42m), Internal Audit consider it prudent to keep this area under review and therefore will continue to evaluate the governance arrangements, payment for works and budgetary controls in places.
Local Enterprise Partnership	15	To keep under review the decision making and governance arrangements of the Local Enterprise Partnership in terms of setting a clear vision and operating under a clear governance framework, securing and accounting for funding, managing performance of regeneration schemes and achieving milestones and outcomes. In 2018/19, Internal audit activity will include a review of the SSLEP's Local Assurance Framework following the publication of the national single assurance framework by MHCLG in November 2016 and compliance with the framework.
European Funding - European Structural & Investment Fund (ESIF)	12	The SSLEP has been successful in bidding for £138m of European Funding to fund projects within Staffordshire and Stoke on Trent for the period 2014 to 2020. The EU programme is controlled by the SSLEP and in particular the ESIF committee. Currently, £101m of the £138m has been committed. MHCLG have set a target that £35m must be drawn down by December 2018 otherwise 6% of the £138m will be withdrawn (over £8m). It is therefore crucial that this area is managed over the coming months by the ESIF Committee. In 2018/19, Internal Audit has been requested to give assurance in this area as well as the governance arrangements for ESIF. The 4 SCC controlled projects will be reviewed in relation to this (LC BEP; Rural Enterprise Programme, Staffordshire Excellence and the Growth Hub scheme).
Growing Places Fund	10	Central Government has provided SCC with £10.720million to the SSLEP to operate a revolving fund to support growth. Monies are will be loaned to organisations and legal agreements are in place to secure their repayment. This area has not been audited previously and therefore management consider it prudent to undertake a systems audit review of the Growing Place Fund arrangements. Scope to include:- • management and operation of the fund during 2018/19 including approval of bids for funding and due diligence undertaken; • Monitoring and reporting arrangements;

Area	No of Days	Indicative Scope
		• Repayment of loans.
Developers Contributions (S106s)	10	To provide assurance that there are sound systems, processes and controls in place relating to the calculation, recording, monitoring, payment and accounting for developers contributions (financial and non-financial) in relation to the community infrastructure (S106 agreements).
Household Waste Recycling Centres	12	The contract to operate and manage the County's HWRCs (11) was awarded to FCC in August 2013 for 11 years. The annual value of the contract is circa £3.6m p.a. In 2018/19, Internal Audit will provide assurance over the arrangements in place for managing and monitoring the household waste recycling centres contract.
Staffordshire Safer Roads Partnership	10	The operation of the strategic partnership between SCC/SoTCC, Police, Fire and Highways England has been subject to an internal review regarding its systems and processes which has also seen the implementation of a new governance structure underpinned by a collaboration agreement. In 2018/19, Internal Audit will review and evaluate the new partnership arrangements in place including the governance arrangements; financial processes and performance monitoring of outcomes.
Development Control - Planning Applications and Regulation (Minerals & Waste)	10	To review the key controls and processes relating to planning enforcement in respect of mineral and waste developments. Scope of work to include:- i) Policies and procedures governing planning enforcement; ii) Monitoring of authorised developments; iii)Programme for site visits and fee charging (20% increase can be re-invested); iv) Collection of income; and v) follow up previous audit recommendations.
Civil Parking Enforcement	10	New arrangements for the delivery of Civil Parking Enforcement in Staffordshire came into force on 1st April 2015. SCC has entered into a contract with Stoke on Trent City Council to provide civil parking enforcement throughout Staffordshire. The contract is for 5 years (2015 to 2020) at a cost of circa £1m per annum. Management has requested internal audit assurance during 2018/19 relating to the contract management and monitoring arrangements in place for the new supplier of the service including contractor payments and performance as well as controls in place to ensure that the Council receives all income due to it. Controls in place to mitigate the risk of fraud will also be considered.
Concessionary Fares Travel Scheme (English National Concessionary Travel Scheme & Your Staffordshire Card)	15	To keep under review the system/processes in place to administer the Concessionary fares schemes (young and elderly persons schemes - ENCTS and YSC including the administration and issue of bus passes. Budget is circa £7.8 million in 2018/19. This year's audit will also follow up those recommendations made as part of the 2015/16 systems review (covering both the ENCTS and YSC schemes).
Taxi Driver/Coach Operators/Passenger Assistants – Safeguarding	15	To review the safeguarding arrangements in place to check taxi/PCV contractors, taxi drivers, taxi passenger assistants and PSV contractors for suitability. The recommendations arising from the 2016/17 audit reviews on SEN transport and DBS/Safer recruiting (where applicable to this review) will also be followed up.

Area	No of Days	Indicative Scope
ENTRUST(SDA) - Careers, Information, Advice and Guidance	10	As part of the Entrust Service Delivery Agreement (SDA), the service pays circa £1.8m to provide careers information, advice and guidance. Internal Audit has been requested in 2018/19 to undertake a contract monitoring audit review to confirm:- • responsibility/accountability arrangements for performance monitoring; • arrangements for monitoring performance and costs against the SDA; • Delivery of services in accordance with the SDA; • Performance reporting and dispute resolution.
Network Management -Highway Permit Scheme	5	The Council does not currently have a Highways Permit Scheme, although it is envisaged that the Council will develop a business case for one in 2018/19. Management have asked for support in reviewing the financial modelling for the proposed Highways Permit Scheme to be included in the business case as well as processes as they are designed.
Skills & Employability: Adult & Community Learning - Commissioning and Monitoring of Provider Contracts	10	In 2018/19, management has requested assurance relating to the operations of the Direct Delivery Unit who delivery community learning programmes. In particular, the audit review will focus on:- • application and compliance with the fees policy; • fee Income collection - billing and recovery; and • verification of the delivery of certified/accredited programmes.
Total No of Days	**218**	
Finance & Resources – Andy Burns		
Medium Term Financial Strategy - Delivery Plan	15	The MTFS for the 5 year period 2018 to 2023 requires additional savings of £132m. Although the Council has a proven track record of delivering significant cost reductions, the scale, complexity and pace of the changes still required increases the risk that not all cost reductions will be delivered. As a result, on going assurance in this area is required in 2018/19 in relation to the delivery of savings. Scope to be determined.
Digital Development Programme	20	The Council's digital development is aimed at driving the development of digital innovation across the organisation and wider smart Staffordshire network in support of the achievement of organisational outcomes and financial savings. There are 60 identified work programmes which support Digital Staffordshire. Time will be required in 2018/19 to review a sample of these work programmes looking at the project governance arrangements, monitoring, delivery and reporting of outcomes. Within the sample, some ICT digital projects will be reviewed (15 days). Time to support the project in terms of advice guidance is also included in the time allocation for this exercise (5 days).
Liberata Payroll System	25	In June 2017, the Council's payroll will be provided by Liberata (based at Worcestershire County Council), using the iTrent payroll system under a service contract. This area is classified as a key financial system review in 2018/19 as per our Cyclical Review timetable for Key Financial Systems and further assurance will be required in 2018/19 that processes and controls operated by Liberata are properly

Area	No of Days	Indicative Scope
		embedded. The recommendations made in the 2017/18 payroll review will also be followed up.
Strategic Property Asset Management and Governance	25	Time will be required in 2018/19 to review the new property governance structure including the new framework for decision making (incorporating the operations of the Strategic Property Unit and the Penda Property partnership).
Capital Receipting Transformation	15	Over the next two years (commencing in 2017/18), the Council is aiming to generate £30 million from property disposals to support the MTFS. This requires the co-ordination of property assets across the Council. On-going assurance over (i) the governance arrangements including the decision making and disposal process as well as (ii) the monitoring and reporting arrangements will be required in 2018/19.
Adult & Children's Financial Services Transformation Review Programme	30	To provide a quality assurance role to support the Adult & Children's Financial Services Transformation programme review throughout 2018/19. • Attendance at the programme Group; • process evaluation; • Assurance role.
My Finance	30	On 6th November 2018, the Integra Finance System went live. In 2018/19, the following on going audit support is required:- • Attendance at Change Board (as required) • Parent Pay Interface Process; • Secure File Transfer development; • Integra Control Function (excluding HR as this is subject to a separate auditable area); • Payment Team Health Check - re access permissions/separation of duties; • Lessons Learnt exercise; • Follow up those recommendations arising from the systems audit work carried out in 2017/18 relating to P2P, S2C, Bank reconciliations.
My HR	10	Following the implementation of My HR after the decommission of SAP a full application security review was to be undertaken to assess the confidentiality, integrity and availability of data. However, due to difficulties in obtaining evidence from the hosting provider, the scope was reduced. As part of the 2018/19 ICT Audit plan, this audit will be a review of those areas that could not assess during 17/18 as well as a follow up on the recommendations made as part of the 2017/18 review.
Nominal Main Ledger (Main Accounting including bank reconciliations)	12	The audit will examine key controls relating to the Council's main accounting system including bank reconciliations following the implementation of the new financial system Integra. This area is classified as a key financial system review in 2018/19 as per our Cyclical Review timetable for Key Financial Systems.
Early Years Funding Payments	12	There is a statutory duty imposed on local authorities by the Childcare Act 2006 to ensure that parents can access up to 30 hours a week of free early education and childcare for their eligible two, three and four year old children. The Council pays

Area	No of Days	Indicative Scope
		over 900 educational settings totalling £11m per annum. This area has not been subject to internal audit for a number of years and therefore management believe it is prudent to revisit this area seeing the value and volume of transactions being made. To review the processes and controls in place relating to Early Years Funding Payments (eligibility, payment controls, guidance, SCC claim process).
Adult & Children's Financial Services Team - Direct Payments (Adults) - Pre Paid Scheme	12	In 2018/19, Internal Audit will review the processes and controls in place to administer and manage pre-paid card direct payments.
Cheque Control	10	Processes have changed with the replacement of SAP and the implementation of Integra and time will be required in 2018/19 to review the new arrangements in place for cheque control (cheque stocks, processing, and cheque issue and cheque security).
Commercial Services - Procurement	15	Following the redesign of processes including the revision of the Council's Procurement Regulations; use of the new financial system, Integra, introduction of "no order no pay" and improvements to procurement training and procedural guidance management has requested on-going assurance in this area in 2018/19. Our work will continue to focus on compliance with procurement regulations including the use of exceptions; maintenance of contract documentation and the contract register; and adequacy of training and guidance. In addition, the audit will review the monitoring that the Commercial Team now undertake following the implementation of Integra. This audit review excludes school procurement (covered as part of school's audit programme).
Purchasing Cards	15	In 2017-18, more purchase cards have been issued with a push to use these as a flexible method of purchasing. With this in mind, transaction limits have been increased to £3k and the Council now uses cash only purchase cards at some establishments (replacing use of imprest accounts). It is therefore prudent to continue to keep this area under review in 2018/19 to ensure that the issue, administration and monitoring of purchase cards is controlled. The audit review will focus on both the central controls operating by the Payments Team including how leavers return purchase cards and the controls operated locally at a small sample of establishments. Establishments to include those using cash only purchase cards. The recommendations made in last year's audit will also be followed up. See also Continuous Controls Monitoring in this area under the Counter Fraud Plan for targeted audit work on high value/volume purchase card payment transactions in year and where approvers have missed the payment approval deadline.
E- Payments	5	During 2018/19, call secure is being implemented to ensure compliance with the PCI DSS requirements for capturing payment card data. Time will be required in 2018/19 to review the Call Secure process and to assess how users (customer contact centre) are using it. Access to the E-Payments system remotely by Income staff will also be reviewed (in support of agile working).
Treasury Management & Lloyds Link (electronic payment system)	10	To keep under review the treasury management arrangements in place (covering short and long term investments and borrowings). Scope of IA's work will include

Area	No of Days	Indicative Scope
		• Investment and borrowing transactions and related policy. • Accounting, bank and local records. • Reporting of investment and debt positions. • Supervision and management structures and arrangements.
Core Payroll & Schools Payrolls - Retained Client & Control Function	15	In 2018/19, to continue to keep under review the arrangements operating within the HR/payroll retained control function (core and schools payrolls) to ensure that processes are operating as intended and are embedded.
Budgetary Control	30	The audit will examine key controls relating to the Council's revenue budgetary control system of the County Council to allow budgets to be appropriately set, approved, monitored and reported upon following the implementation of the new financial system Integra. To select volatile areas of spend or where there has been past over spends such as Children's' Services. This area is classified as a key financial system review in 2018/19 as per our Cyclical Review timetable for Key Financial Systems.
Value Added Tax (VAT)	10	This area is affected by the new Integra financial System. Coupled with changes in personnel during 2017/18, Management consider it prudent to undertake an audit in this area. Scope of Work to include:- • Adequate guidelines are available for officers processing VAT transactions; • There are appropriate controls in place to ensure that the information on the financial accounting system is accurate with regard to VAT; • There are adequate procedures in place to ensure that VAT returns are calculated and submitted in a timely manner; • There are appropriate procedures in place to ensure VAT returns are accurate; • There are adequate controls in place to ensure VAT exempt income is correctly accounted for; • There are appropriate procedures in place for the retention of all VAT returns and appropriate documentation.
Sales 2 Cash - Debt Recovery Function	10	In 2018/19, Internal Audit will focus on debt management as past audit work has identified weaknesses in this area. The outstanding debt target (not exceeding more than £2.5m) is also significantly exceeded. Therefore further audit coverage will be required in 2018/19 to ensure that debt recovery and debt management in My Finance is operating as expected. Scope of work to include:- Arrangements for debt recovery (CCG/other Health bodies and Other debts); Arrangements for making instalments, Collection of debtor Income and allocation to accounts;

Area	No of Days	Indicative Scope
		Write-offs; Monitoring and reporting arrangements.
ENTRUST(SDA) - Facilities Management (soft)	12	To undertake a contract monitoring audit of the facilities management services provided by Entrust for soft Facilities Managements services i.e. Grounds, Catering, Cleaning & Energy Management to ensure that contractual performance standards are effectively monitored, managed and reported upon and that payments are made in accordance with the contract terms and are for services received to the right standard. (Schools and non schools).
Business Continuity Management - Supply Chain Management	15	This area was subject to an internal audit review in 2017/18 and adequate assurance was given. This year's work will follow on from the 2017/18 cloud procurement audit and will review 3rd party suppliers where they are holding or accessing the Council's data and review the contract monitoring arrangements in place to ensure that our data is being held securely. This work will provide assurance over suppliers' cyber security arrangements and supports our cyber assurance suite of audit work in 2018/19.
Registrar Offices - COMPLIANCE	10	In 2018/19 to review 3 registrars offices and review the cash handling/receipting, financial administrative arrangements and budgetary control processes(new processes are in place) . (sample of Registrars: Cannock, Burton and Newcastle Under Lyme)
PFI Schools and Children's Homes	10	To review the arrangements in place for managing and monitoring the performance and operation of the Schools and Children's Homes PFI contracts. The Audit will review roles and responsibilities; contract performance monitoring and reporting arrangements as well as the payment process including contract variations.
Mileage & Subsistence expenses - Officers	8	To keep under review the arrangements in place to process and pay mileage and subsistence claims and follow up the 2017/18 audit recommendations. *See also Counter Fraud Plan 2018/19 for proactive sampling and continuous controls monitoring in this area.
Insurance	3	IA will continue to provide the fidelity guarantee renewal under writing information in relation to systems and controls.
Total No of Days	384	
Strategy, Governance & Change– John Tradewell		
Cyber Assurance - Data Breach Incidents and Response Plans	10	Taking into account the General Data Protection Regulations coming into force from May 2018 and the threat of cyber-attacks to the Council, this audit will evaluate how the Information Governance Unit respond and deal with data breaches that may occur to ensure that any response is effective and in line with best practice and legislation.
General Data Protection Regulations (GDPR)	22	The EU has approved new General Data Protection Regulations (GDPR) which will come into force in May 2018. The Information Governance Unit is overseeing a project to identify areas of potential non-compliance within directorates, particularly for contracts, to ensure that the Council as a whole is GDPR compliant. Internal Audit work will cover two areas:- • project support on high risk areas (10 days) • evaluation of the Council's preparedness for GDPR (12 days).
Data Sharing Agreements	10	As the council continues to commission more services which rely on data sharing agreements and as a data controller, this audit will seek to provide assurance to management that these agreements between the council and other bodies are

Area	No of Days	Indicative Scope
		suitable governed and managed. The adequate control and governance of data sharing agreements is vital to ensure the council fully complies with the data sharing code of practice and GDPR.
Recruitment - Core	12	This audit was undertaken in 2017/18, however, management would like the review to be repeated in 2018/19 as they would like ongoing assurance in this area until the new My HR system has fully embedded. The audit will review the end to end recruitment process across the Council. Scope of work to include use of the recruitment portal and interfaces with iTrent, where appropriate, pre recruitment checks; eligibility to work in the UK and compliance with the Council's recruitment and selection procedures.
NEXXUS - External Trading Company	10	The company is now trading under the health and care banner for reablement services. Time will be required in 2018/19 to provide assurance to the County Council that the governance arrangements are operating effectively. Scope to be determined.
Deputyships	15	In 2018/19, there are a number of changes taking place within Deputyships, which include change in team leader, use of automatic bank reconciliation and the return to an agency account instead of individual accounts. As a result of the changes management think that it would be prudent for Internal Audit to keep this area under review. Scope to be determined. *See also proactive fraud and corruption work programme for targeted audit work on transactions made through Deputyship bank A/cs and Community bank A/cs.
County Fleet Care	12	This area has not been reviewed since 2013/14. Management therefore feel it would be prudent to gain assurance that it is operating satisfactorily. Internal Audit will review the following areas:- • arrangements in place to manage the financial processes including budgets, reconciliations, supervision and management checks, • acquisition and disposal of vehicles, • arrangements in place for charging, recording and banking of income from vehicle maintenance and vehicle disposal; • arrangements are in place for maintenance of stocks and stores • adequate controls are in place for fuel stocks, fuel issues and fuel cards.
Total No of Days	**91**	
Health & Care – Richard Harling		
Home and Community Care Contract	15	All Home Care contracts should be mobilised by the first week of April 2018. Later in the year, management has requested a contract monitoring audit to ensure the contract terms and conditions are being met. Internal audit will review the contract management arrangements in place by the service to ensure that contractual performance standards are monitored effectively, managed and reported upon and that payments to providers are made in accordance with the contract term
Care Director (Adults and Children's modules)	30	Following a request from management, Internal Audit will provide advice and assurance on the development of a self-assessment application to be developed by Care Works. This application will allow citizen's to enter their details, including financial information, which will be submitted to the Care Director application for a financial means assessment. This project is in its infancy and therefore how Internal Audit will provide assurance in this area is still to be finalised (ICT and

Area	No of Days	Indicative Scope
		General Audit Work may be required). Following discussions with the Care Systems Development lead it is envisaged that Internal Audit will be a member of the technical work stream. Internal Audit work will revolve around the security of the self-assessment application and the data submitted by users. Compliance with the Care Act will also be considered.
Residential and Nursing Care - Dynamic Purchasing System	15	New contract awarded. A dynamic purchasing system is used by the brokerage team to enable a more efficient operation for the award of residential care placements. Management would like assurance over the process to ensure that commissioning intentions have been achieved.
Adult Learning Disability Team (ALDT) (previously Independent Futures)	15	Currently the ALDT do not use the brokerage service to broker packages of care and the service are concerned that they are not obtaining value of money. Management would like Internal Audit to review this area to ensure that there are decision making processes in place to determine the most cost effective care packages both locally and centrally.
CM2000 Finance Manager	20	A project has been initiated to implement the CM2000 Finance Manager. Similarly to the Care Director Self-Assessment, this project is in its infancy and therefore how Internal Audit will interact and provide assurance on the application is yet to be determined. However, our work will look at the security and availability of the Finance Manager application as well as the security of the interface between the Finance Manager and Care Director. General Audit Work may also be required.
Mental Health S75 Agreement	15	A new Section 75 agreement for Mental Health comes into force from 1/4/18. New contract management and performance monitoring will be in place to ensure the contract terms and conditions are being met. Internal audit will review the contract management arrangements in place by the service to ensure that contractual performance standards are effectively monitored, managed and reported upon and that payments to the provider are made in accordance with the contract terms.
Brokerage	15	Changes in the S75 agreement with SSOTP have led to the long term care budget being transferred back to the Council. A new centralised brokerage service has been set up to enable the Council to provide consistency of service across all client functions, as well as providing timely performance and financial information to underpin its operations. In 2017/18 Internal Audit reviewed the redesigned brokerage pathway and the performance management arrangements. In 2018/19 management has requested that we review the brokerage pathway as it reaches maturity to ensure the model is still fit for purpose. Scope for audits to be developed further with the commissioner but will cover pressures on brokerage team due to new areas to be included i.e. learning disability. *The DPS is part of brokerage however this area is subject to a separate audit review.
Front Door Arrangements - Screening Assessments	12	As part of the Modernising Adult Social Care Customer Journey Programme an enhanced Front Door model will be embedded to allow all potential referrals to be screened to minimise referrals to the Community Teams. Management would like Internal Audit to review compliance with the care act and consistency of decision making for contacts and screening of assessments. See also work on Care Director in 2018/19.
Adult Social Work and Safeguarding: Safeguarding Adults	15	There is a contractual alliance with other partners for the MASH. The service is undertaking a review to look at enquiries and thresholds and management would like Internal Audit to undertake some work around thresholds for low risk cases. The scope to be determine.
Healthier Communities Programme	15	This programme covers a number of areas such as stop smoking, obesity, physical activity and health checks. The latter are a statutory function that is ongoing and based on payment by results. A new contract will be in place in 2018/19 and management would like assurance over:-

Area	No of Days	Indicative Scope
		• the impact on services of letting the new contract, • the effectiveness of the model re the performance framework, • clinical assurance - how are we assuring that decisions made are secure re the contract process.
Appointeeships	18	The administration of appointeeships will transfer from Staffordshire and Stoke on Trent Partnership Trust back to the County Council from 1/4/2018. A Steering Group was set up to consider the options available for the administration of appointeeships and Internal Audit sat on the group for the transfer phase. The second phase will be improved working for appointeeships to which Internal Audit will provide support (8 days). Additionally the District Agency Accounts, through which the appointeeships operate, will be audited against the Standard Operating Procedure. This will be across a sample of Districts. (10 days)
Quality Assurance	15	Providers are quality assured under a regulated regime through the Care Quality Commission (CQC). Resources are targeted at those providers requiring improvement and those not seen by the CQC. There is a new suite of indicators for the framework for organisations. The quality assurance framework will be reviewed and scope will include:- • the quality and performance management framework is clearly defined, • systems are in place for data capture, monitoring and reporting, • quality of data information submitted by providers against key indicators is assessed, • remedial action plans have been devised and put in place for areas of weaknesses identified and these are followed up.
Better Care Fund - Pass through money	10	The County Council has received pass through money (previously known as S256) circa £ 16.5 million in 2017/18. This funding has been split with both the SSOTP and SCC undertaking schemes that meet the eligibility criteria. The CCGs require assurance from the Council that the funding has been spent in accordance with the relevant terms and conditions.
Prison and Approved Premises Teams	10	Under the Care Act 2014, prisoners are entitled to a care assessment of their needs by the Local Authority and appropriate actions undertaken to ensure the provision of required support, either via changes to their environment, such as provision of equipment, or, where appropriate the provision of external domiciliary care support. The Local Authority is also required to ensure that arrangements are in place to maintain an individual's care subsequent to transfer to another establishment. The service has a defined referral and assessment process for prisoners and would like internal audit to undertake a review of this process in 2018/19 as it has not been reviewed previously.
Approved Mental Health Practitioners (AMHPs)	10	The Authority has a statutory responsibility under the Mental Health Act in relation to the requirements for Approved Mental Health Professionals. This area has not been reviewed by Internal Audit for more than five years and management would like some assurance that it is operating effectively for; the approval and re-approval of individuals, training and supervision, record keeping and monitoring and supervision.
Total No of Days	230	

Area	No of Days	Indicative Scope
ICT – Andy Burns		
Cyber Assurance - Patch Management	12	Following several high profile cyber-attacks during 17/18 which took advantage of unpatched devices, this audit will aim to provide assurance that a robust patch management procedure is in place to prevent the exploitation of known vulnerabilities in software and operating systems.
IT Disaster Recovery	12	The review will consider the following key areas: • Responsibilities for the management and operation of IT disaster recovery arrangements are well defined. • An effective assessment has been carried out to identify the business and IT systems critical to the organisation. • Preventative measures are in place to reduce the risk and impact of an IT disaster. • Procedures allow the recovery from a partial or total loss of computing and business services in a controlled manner. • There is a robust testing regime in place.
Data Centre Environmental and Physical Security controls	10	The County Council's Strategy requires the evacuation of the Kingston Centre which is home to the Council secondary data centre. In January 2017 a decision was taken to nominate Staffordshire and Shropshire Health Informatics Service as the preferred partner to host out secondary data centre in Trentham. The move is scheduled for September 2018. Considering the security importance of both the primary and secondary data centres, it is felt that given the relocation of the secondary Data Centre, 2018/19 would be an ideal time to conduct an environmental and physical security audit of both data centres. This audit will provide assurances to management that both data centres have suitable controls in place to protect council data and services running from these centres in compliance with relevant standards
Corporate Backup Management	15	Following the implementation of a new backup management solution which is due to be in place from July, this audit will seek to provide assurance that suitable backup procedures have been documented, approved and are followed to ensure that all business critically systems are suitably backed up to assist in business continuity procedures.
Identity and Access Management	12	This review will look at the starters, movers and leavers procedures in place to ensure that they suitably protect Council data from unauthorised access. Specifically this audit will focus on council movers to ensure users access to data and systems is suitably amended following a change in job position.
Office 365 Project	20	A significant project is currently underway which aims to rollout Office 365 across the council. Not only is this a large technical change with numerous data and general IT security implications to consider, it will also change the way the council uses Microsoft Office. Management has requested that audit sit on the projects project board to provide advice on data and IT security matters when required, including Protective Marking and Records Management & Retention. The ICT Audit Manager will also take part in the proof of concept of Office 365.
Kingston Data Centre Move	10	The ICT Audit Manager will continue to be a member of the Kingston Data Centre Move Project Board to provide independent assurance on project governance as well as providing advice where needed. This audit will supplement the Data Centre Environmental and Physical Security audit also planned for 2018/19.
Total No of Days	**91**	

Area	No of Days	Indicative Scope
Grant Verification Work		
Superfast Broadband for Staffordshire Project - Grant Verification	5	The superfast broadband for Staffordshire programme costs circa £20m (phase 1) and £2m (phase 2). This area has been subject to review by BDUK and positive assurance has been received. However, there is a requirement for the end of year monitoring report to be verified and signed off by the Chief Internal Auditor. This is required to be carried out by Mid-March 2019 and therefore time is required in the audit plan to undertake this work. In respect of the governance arrangements for the programme, assurance will be taken from the positive assurance statement provided by BDUK.
Local Transport Capital Funding (Integrated Transport and Highway Maintenance, Pothole, National productivity Investment Fund & Flood resilience Fund)	17	£28.280m has been received by SCC in 2017/18 to provide support in financing the capital costs of integrated transport measures and capital highway maintenance schemes. Internal Audit verification of grant expenditure is required in order to comply with the conditions of the funding (due September 2018). As part of this sum £1,716m has been received relating to the Highways Maintenance incentive element, £1.582m has been received relating to the Pot Hole Action Fund and £3.711m has been received relating to the National Productivity Investment Fund. An additional £2.203m for the Flood Resilience Fund has also been recently received.
Highways Maintenance Challenge Fund	6	In 2017/18, the Council was successful in bidding for challenge funding for the Burton on Trent River Crossings scheme. £2.5m has been received. Internal Audit verification of grant expenditure is required in order to comply with the conditions of the funding (due September 2018).
Local Growth Deal Fund - Grant Verification	15	The purpose of the Local Growth Fund is to provide funds to local enterprise partnerships for projects that benefit the local area and economy. As at December 2017, of the £98.275million received for the period 2015/16 to 2020/21, £57.882million has so far been spent. There are a number of capital schemes that benefit from the LGF. As part of the grant conditions, a declaration is required to be submitted and certified by the Chief Executive having first received assurance from the Chief Internal Auditor for the Authority that the conditions attached to the funding have been complied with. A grant verification exercise will be required to be completed by 29th July 2018
Earned Autonomy	8	The Service has been successful in submitting a bid to the Department of Communities and Local Government for (now MCHLG) Earned Autonomy and there will be need to verify and quality assure the grant submission including whether the service are meeting its performance targets as included in the submission.
Growth Hub Grant	5	The Department for Business, Innovation & Skills (BIS) has awarded Staffordshire County Council new growth hub monies of £205k p.a. for 2017/18, 2018/19 and 2019/20 to support the growth hub investment programme. Internal Audit is required as part of the grant conditions to verify grant spend for the year and therefore time will be required to verify the 2017/18 grant (timescale May 2018).
Department for Transport - Bus Subsidy Grant	10	The Department For Transport has awarded SCC £700k in 2017/18 in relation to Bus Transport Services. Within the grant conditions, there is a requirement for Internal Audit to provide assurance over grant expenditure and confirmation that grant conditions have been complied with. This is required to be submitted to the DfT by September 2018. Time is therefore required in the audit plan to undertake this grant verification exercise n.b. In 2017/18, the grant continued to be ring fenced.
Total No of Days	**66**	

Area	No of Days	Indicative Scope
Cross Cutting Reviews		
Delivering Good Governance - Corporate Governance Working Group	15	CIFPA in 2016 published its work on delivering good governance in Local Government: Framework (2016 edition). It is important that the Council ensures that it is aware of the contents of this publication and where appropriate, makes improvements as appropriate. In respect of this, the CIA's attendance at the Corporate Governance Working Group ensures that the Council's governance framework is kept under review. The CGWG covers areas such as Scheme of Delegation/ Gifts & Hospitality/AGS/Financial Regulations/Procurement Regulations/Code of Corporate Governance.
Risk Management – Assurance Mapping	20	Time will be required in the Internal Audit plan to develop SCC's Assurance Mapping/Sources of Assurance Framework in 2018/19.
Sustainability and Transformation Plan	2.5	The Together We're Better partnership is moving from planning to delivery. The partnership has held workshops with the H&WB to cover how we move forward on delivery mode, governance and further public engagement. Some work has been undertaken on planning of the public estate and SCC has been involved with this project, however, progress on implementation of the STP has been slow and to date SCC have had little financial input. No specific work will be undertaken on this area in 2018/19, however Internal Audit will maintain a watching brief in this area in year.
Total No of Days	**37.5**	
Management of the Service	137	
Recommendation Tracking	20	
Contingency	25	
Total Days For SCC Plan	**1610.5**	

Appendix C – SCC Counter Fraud Plan 2018/19

Area	Number of Days
Strategic Development	
To review key Fraud Policies to ensure they are up to date, and reflect current best practice, and latest legislation. Policies to be reviewed include: Fraud Bribery and Theft, Anti Money Laundering, Fraud Manual and Fraud Strategy	5
To update the Fraud Risk Register to reflect new and emerging risks identified, and downgrade/remove diminished or non-existent risks.	5
Continue to monitor progress against CIPFA's Fighting Fraud Locally, and Code of Practice and monitor for similar best practice guides being published.	5
To develop a structured fraud awareness programme for elected members.	5
To undertake a Money Laundering Risk Assessment to help informal risk based approach to countering money laundering.	3
Participation in CIPFA anti-Fraud Surveys	3
Development of manual and proforma documentation for Proactive Fraud work, including continuous controls monitoring (4 days)	4
Total Days	**30**
Development of an Anti-Fraud Culture	
To develop an E-Learning Package	11
To develop a fraud awareness training offer, publication to appropriate team leaders and provision of sessions	15
To undertake Staff Fraud Awareness Survey (Junes 2018)	4
Quarterly refreshes and additions to the Council's Fraud Intranet and Internet Pages and publication of latest fraudwatch newsletter	5
Total Days	**35**
Prevent and Deter	
Development and Implementation of Continuous Controls Monitoring During 2018/19 available data sets will be used to run monthly tests for red flags which may indicate fraud. Transactions identified will be reviewed for validity and compliance with Council Procedures. Testing to start in June 2018 with a limited set of data, as protocols and technical skills are identified, and will be extended in-year. Example data sets include P-Card transactions looking for inappropriate purchases, split transactions, unexpected merchant categories etc., and transactions that take place on days the cardholder is reported as sick.	70
Analytical review to be undertaken of cash transactions made under the S17 process, followed by sample testing of perceived unusual transactions to verify their validity.	10
Total Days	**80**

Detection	
To provide support for the collection, verification and transmission of data for the 2018 data matching exercise in line with external deadlines. To ensure that the relevant promotional material/Fair Processing Notices for the exercise is prepared, produced and distributed appropriately. More time will be required in 2018/19 due to payroll system changes and Finance system changes. (8 days) The time set aside includes days for processing matches on release in January 2019 (12 days) In addition to the NFI Submission we will perform the matching exercise between personal budgets and pensions internally in October 2018 to coincide with an exercise of validating Personal Budget assessments (4 days)	24
To review a sample of direct payments for legitimacy (targeted testing will be carried out – Adult Financial Services Team to advise on high risk cases	10
To perform sample testing on bank transactions relating to deputyship accounts to ensure they are legitimate.	10
The new home and community care contract links the payment to providers via the CM2000 system. Providers are required to log calls at the service user's home whilst performing the care visit. The new contract requires 95% compliant. Internal Audit will select a sample of providers and review the compliance rates element.	10
Local Authority procurement is at risk of infiltration from serious and organised crime and organised crime groups could be benefiting from public sector contracts. A report by the home office published in December 2016 identified that the procurement areas at risk were waste firms and taxis. As a result, in 2017/18, Internal Audit assessed the serious and organised crime risks that relate to the Council using the Serious and organised Crime Checklist produced by the Home Office. 2018/19 work planned is a review of the checklist completed in 2017/18 to ensure it remains up to date with emerging threats, systems and processes.	2
Continue to joint work (where appropriate)with the North Staffordshire Fraud Hub	2
Car parking fees will be applicable at the Chasewater Innovation Centre during 2018/19. To undertake a review of the income collection process to ensure that all income collected is accurately accounted for, held securely and banked in-tact.	2
Staffordshire wood fuel – to review the income and stock controls in place to mitigate the risk of fraud.	5
To review mileage and subsistence expenses claim data and perform targeted testing of 'red flag's that appear, and perform a thorough review of areas where suspicions have been raised.	10
To review the process for home to school transport – personal payments to ensure that payments are made to eligible individuals and are reviewed periodically to ensure their on-going entitlement to these payments.	10
Blue Badges - To undertake a risk assessment exercise.	10
County Fleet Care - We will perform a high level risk assessment to identify where the most significant risks lie, and then seek to validate that Council staff driving Council vehicles hold an appropriate license.	10
Total Days	**105**
Investigation	
Continue to undertake investigative work when issues of concern are identified through routine audit, reported by management or via the whistleblowing processes in place	200
Total Days	**200**

Management	
Representation at the MCCIAG Fraud Sub group and SCAG working groups	3
Continued liaison with the Director of Finance and Resources and the Director of Strategy, Governance and Change as and when issues arise.	2
Grand Total (Days)	**455**

Appendix D – Staffordshire Pension Fund Internal Audit Plan – 2018/19

Local Government Pension Scheme (LGPS) Asset Pooling	25	In the July 2015, the government announced its intention to introduce a new regulatory framework which would facilitate collective investing. Following this, a joint proposal was developed with a number of Midland LGPS funds with combined assets of £35m to form an investment pool. In November 2016, the LGPS central was formally approved as a Local Authority Pension Fund Pool. LGPS Central Limited has been set up (Private company) to act as an alternative investment fund manager to run and operate one or more collective investment vehicles to allow the administering authorities to pool their respective investments. The company is also authorised by the Financial Conduct Authority (December 2017). It is envisaged that some SCC assets will be transferred over to the pool during the latter of 2018/19. Time will be required in 2018/19 to liaise with Treasury Services and the other Midland authorities who make up the 8 partner funds to develop a strategy for providing internal audit assurance over this area of activity in the future across the company and the joint investment pool. Each Council's External Audit firms will also have to be involved in discussions. IA involvement may also be required to give assurance over the transition of assets which will be a high risk area.
Pension Fund - Governance	10	New Pension Regulations came into force on 1st April 2015, which brought with it the Pensions Regulator and the Pension's Regulator's code of practice. These Regulations also introduced the requirement for new pension fund governance arrangements i.e. a pensions board. Continued assurance is required in 2018/19 over the Pension Fund Governance arrangements including: continued compliance with the Public Service Scheme CoP and Public Service regulatory Strategy in relation to Disclosure of Data; Maintenance of a Breaches Log, review of the monitoring process for covenant; and review of policies and the development of a training plan for Pensions Committee Members.
Pension Fund - Pensions Administration	30	To keep under review the arrangements in place for administering SCC's pensions scheme. This will include a review of payments due to and payments made from the pensions fund as well as the operation of the new software I-Connects and compliance with the GDPR.
Total No of Days	**65**	

Appendix E – Quality Assurance Programme

Quality Assurance

Quality outcomes/process designed to deliver a consistently high quality audit service to our clients – fit for purpose/ meets client expectations/conforms to PSIAS.

Quality Improvement Plan

CIA reporting to the Audit & Standards Committee on the outcome of quality assurance review, together with the improvement action plan and any significant areas of non-conformance to PSIAS included in the Annual Report/Annual Governance Statement.

Ongoing Monitoring

Quality checks and oversight are undertaken throughout the audit review, ensuring that processes and practice are consistently applied and working well.

Role of the CIA

- To develop and maintain the Quality Assurance Improvement (QAIP) and resultant action plan.
- Focus on evaluating conformance with the Internal Audit Charter.
- Arrange an External Assessment in-conjunction with the Audit & Standards Committee.

Role of the Audit Managers

- Obtain on-going assurance that the audit planning, fieldwork conduct and reporting/communication results adhere to audit standard practice (as defined in the audit manual).
- Undertake audit supervision and review. The extent of supervision needed will depend on the proficiency and experience of the internal auditors and the complexity of the review.

Role of Individual Auditors

- Conduct all audit reviews in accordance with the requirements contained in the audit manual and PSIAS.
- Behave at all times in accordance with the PSIAS Code of Ethics and Code of Conduct.
- Promote the standards and their use throughout the Internal Audit Activity.
- Actively seek feedback for all reviews undertaken.
- Demonstrable commitment to delivering quality services.

During 2017/18 an External Quality Assessment of the Team was performed by Chartered Institute of Public Finance & Accountancy (CIPFA). In 2018/19, actions to implement the recommendations and suggestions arising from the review will be taken forward.

Annual Audit Planning Process

Proposed Internal Audit Plan & Counter Fraud Plan 2018/19

The Internal Audit Strategy

- Key governance document
- Produced annually and approved by the Audit & Standards Committee
- Sets out:-
  - The risk assessment process;
  - Key principles applied; and
  - Resources needed to deliver the plan.

How is the Plan Identified

- All potential audit able areas are listed;
- Discussion with the Director of Finance & Resources;
- Discussions with key officers (OMT/WLT/SLT) – 55 + Officers;
- The update of the Council's fraud risk assessment;
- Review of County Council's Strategic Plan 2018-2022; Delivery Plan 2018-19, and Medium Term Financial Strategy 2018-2023;
- Consideration of key partnerships governance requirements;
- Previous years' work;
- Linkage with other assurance providers; and
- Audit & Standards Committee needs.

Detailed Risk Assessment

- Detailed risk assessment is formed.
- **7** Risk Categories
  - 1. Materiality
  - 2. Impact/Sensitivity
  - 3. Audit View
  - 4. Time since the last audit
  - 5. Linkage to Risk Management – Controls Assurance
  - 6. Fraud
  - 7. Stability of the System

What to Include?

- Results calculated to give an overall percentage score

- A score of 60% and above – high risk

- A score of between 59% and 40% – medium risk

- A score below 39% – low risk

Key Principles Applied

- Assurance reviews with a high risk (i.e. >60%) ranking are completed.

- Identification of 'Top Ten Risk' Reviews.

- Key Financial systems are conducted.

- A Schools' audit programme is developed based upon a formal risk assessment.

- An initial allocation of 200 days to conduct Special Investigations is made.

- An initial contingency allocation – variable year on year is included in the Internal Audit Plan.

- Time is included to undertake pro-active counter fraud work.

- Compliance reviews are also included in the Internal Audit Plan.

Resource Requirement 2018/19

Total Resource Requirement	Days 2018/19	Days 2017/18
Staffordshire County Council Plan	2,065.5 days	2,099 days
External Clients	354.5 days *	521 days
Total Resource Requirement 2018/19	**2,420 days**	**2,620 days**

Comparable

*decrease in the number of days due to the Staffordshire Police IA Contract ceasing in 2018/19 (175 days). As a result of the loss of days, one vacant post has been deleted from the establishment

- Sufficient resources are available to deliver the Plan including the ability to procure the required level of support from the Private Sector under the Internal Audit framework Contract.

Top 10 Risks 2018/19

- The top 10 risk areas in 2018/19 have been assessed as:-

1. Medium Term Financial Strategy –Delivery Plan;
2. Digital Development Programme;
3. Strategic Property Asset Management and Governance;
4. Liberata Payroll System;
5. Care Director (Adults & Children's Modules);
6. Adult & Children's Financial Services Review Programme;
7. Home & Community Care Contract;
8. Cyber Assurance – Data Breach Incidents & Response Plans/Patch Management;
9. General Data Protection Regulations (GDPR); and
10. Children & Families System Transformation: Family Support Contracts.

Key Financial Audits 2018/19

- Liberata - Payroll System;

- Budgetary Control;

- Nominal Main Ledger System including bank reconciliations;

- Cheque Control;

- Treasury Management;

- Sales to Cash – Debt Recovery Function; and

- E-Payments.

Commercialisation

- Key Question – How is IA providing assurance over the Council's commercial arrangements?

- **<u>Answer</u>**

  Before this can be answered need to understand the term commercialisation

- Means <u>different</u> things to <u>different</u> people and is being implemented in <u>different</u> ways all over the public sector

Aspects to Commercialisation

- **4** Key aspects to commercialisation
  1. **Making Money & Value for Money**- Traded Services & Deliver services in the most cost efficient way;
  2. **Behaving in a More Business Like Way** – working with private sector partners – Our partnerships;
  3. **A Commissioning Council** – Commission smartly using innovation, partnership working with a strong commercial approach ; and
  4. **Being Business Friendly –** create the right conditions for economic growth & prosperity. Through buying and procurement activities SCC hopes to bring benefits to the local economy .

Commercialisation In Context - SCC

- Not only about cost saving initiatives i.e. re-commissioning of services; re-letting contracts; re-negotiating arrangements; reviewing specifications.

- Commercialism is much more……

Shared Services	Selling Services & fitness of traded services
Pricing	Consideration of concessions
Better contract management	Continuous improvement in procurement
Investments	

Auditing Commercialisation in 2018/19

There are a range of audits in the 2018/19 audit plan that will give comfort over the Council's Commercial arrangements:-

Area	Audit Review
Making Money/VFM	NEXXUS – External Trading Company (governance arrangements) County Fleet Care – Traded Service – operating processes Claims Management Regulation Unit – operating processes
Behaving in a More Business Like Way - Our Partnerships	Infrastructure + - (i) quality & management assurance systems; (ii) service delivery processes; (iii) financial compliance arrangements – costings and income collection; (iv) risk and liability – highways insurance claims

Auditing Commercialisation in 2018/19

Area	Audit Review
Behaving in a More Business Like Way - Our Partnerships	Entrust Service Delivery Arrangements- To review 2 areas of the SDA (i) Facilities Management; and (ii)Careers, Information, Advice & Guidance. Liberata – Payroll System & Retained Client & Control Function Penda Property Partnership- Review of property governance arrangements and framework for decision making
A Commissioning Council	Many Examples:- Children's & Families System Transformation – Family Support Contracts (governance around funding and funding spend); Economic Regeneration Capital Schemes; A50 Corridors project; HWRCs; Civil Parking Enforcement; Commercial Services - Procurement (how do we commission and procure);

Auditing Commercialisation in 2018/19

Area	Audit Reviews
A Commissioning Council Continued… Page 451	BCM – Supply Chain Management; PFI Schools & Children's Homes; Residential & Nursing Care – Dynamic Purchasing System; Brokerage; Mental Health S75 Agreement (Contract management and performance management); Healthier Communities Programme.
Being Business Friendly	Digital Programme audit work; Growing Places Fund; Keele Science Park; European Funding – European Structural & Investment Fund (ESIF); LEP
Other Areas	Countryside Estate – future delivery model – Business Case review

Counter Fraud Plan 2018/19

Counter Fraud Work plan – based on the CIPFA Counter Fraud Code of Practice.

- Strategic Development
- Creating an anti fraud Culture
- Deterrence
- Prevention
- Detection
- Investigations

455 days

How is the Plan Delivered?

- In House team

- Commission specific audits from our framework with 4 external firms (BDO/TIAA/Haines Watts & Moore Stephens) & use of NHS Framework Agreement (PwC/KPMG)

- 'Mixed' economy allows flexibility/ability to respond to urgent requests/ access to specialist skills/ Benchmarking.

Proposed 2018/19 Plan

Allocation of Audit Plan by Service

- Management Time - 8%
- Economy, Infrastructure & Skills - 11%
- Families & Communities - 15%
- Finance & Resources - 19%
- Health & Care - 11%
- ICT - 4%
- Strategy & Governance & Change - 4%
- Cross Cutting Reviews - 2%
- Grant Verification Work - 3%
- Counter Fraud - 23%
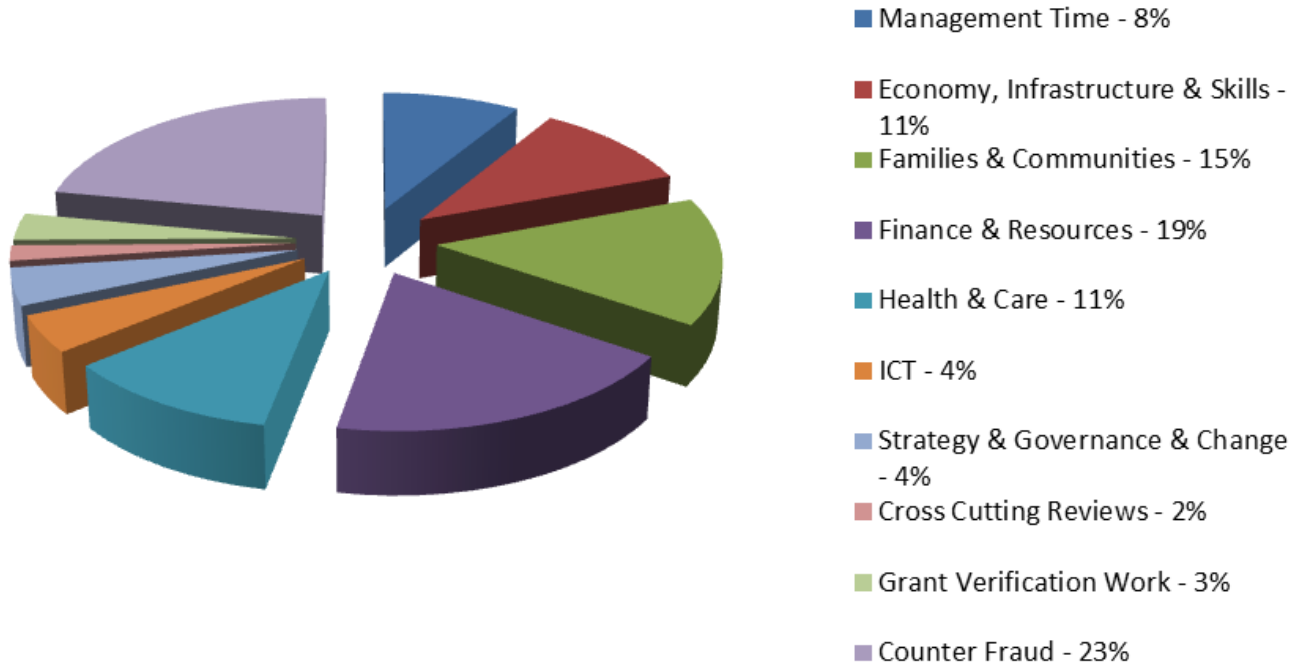
Key Highlights 2018/19

- Continued focus on:-
  - key corporate / transformation projects
  - key financial systems
  - Procurement and contract management audits – contractual arrangements with key partners
- Emphasis on flexibility to respond to emerging requests.

Key Highlights 2018/19

- Continued focus on proactive counter fraud activities and raising the profile of Counter Fraud Work.

- Development of continuous controls monitoring (use of technology to cover more in less time).

- Schools compliance work is focused on high risk schools.

- Work conducted in accordance with the Charter and PSIAS

Allocation of Resources by Client

Allocation of Resources by Client

Client	Percentage
Joint Committee Work	0.4%
South Staffordshire DC	4%
Academies	3.4%
Staffordshire Police	0.0%
Staffordshire Fire	3.4%
Staffordshire Pensions Fund	2.7%
SCC Comfort Funds	0.6%
SCC - Counter Fraud	19%
SCC - Grants	2.7%
SCC - Assurance Mapping/CGWG/STP	1.5%
SCC- ICT	3.8%
SCC Assurance	51%
Management Time/Contingency	7.5%
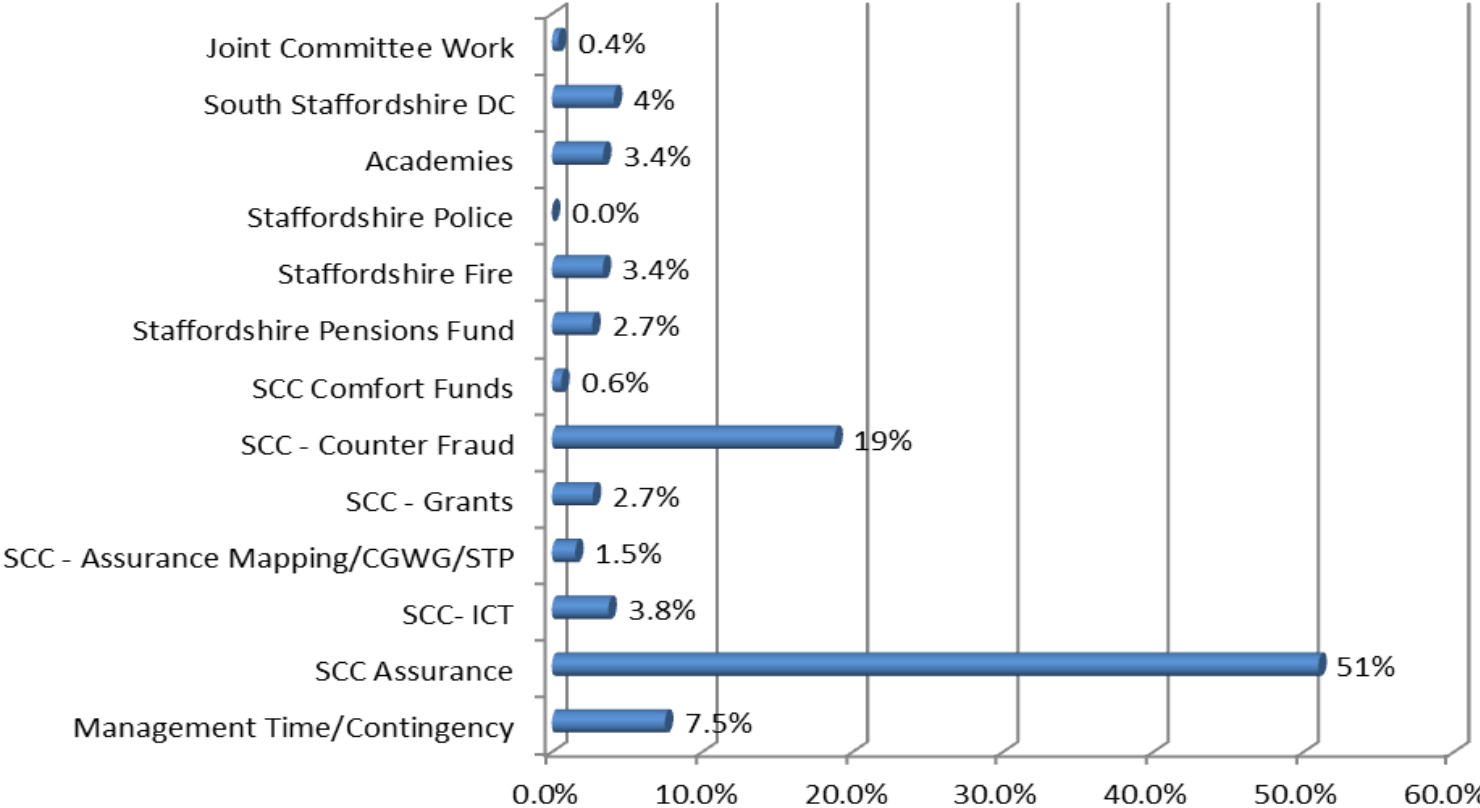
Responding to Emerging Risks

- Regular discussions with the WLT on audits carried out and audits coming up.

- Report more frequently on the delivery of the plan to SLT members (NEW).

- Identification of emerging risks

- Contingency time

Areas for Consideration

- To ensure that the Plan focuses on the key risks facing the Council.

- Confirmation that the plan achieves a balance between setting out requirements for the year and retaining flexibility.

- To confirm that there are sufficient resources within IA to deliver the plan.

EY
Building a better
working world

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Chief Executive
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County Buildings
PO Box 11
Martin Street
Stafford
ST16 2LR

26 April 2018

Ref: SCC/SPF 201819

Direct line: 07342 021990

Email: jburgess3@uk.ey.com

Dear John

Annual Audit fees 2018/19

I am writing to confirm the audit that we propose to undertake for the 2018/19 financial year at
Staffordshire County Council and the Staffordshire Pension Fund (SPF).

As you may recall from 2018/19 you were required to make your own arrangements for local auditor
appointment under the Local Audit and Accountability Act 2014 for the audit of the accounts. You opted
into the national scheme managed by Public Sector Audit Appointments Ltd (PSAA). We were pleased
that PSAA confirmed our appointment as your auditor for the duration of the five-year appointing period,
covering the audits of the accounts for 2018/19 to 2022/23.

Indicative audit fee

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its
national auditor appointment scheme. Following consultation on its Work Programme and Scale of Fees,
PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent from the fees
applicable for 2017/18.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of
Audit Practice for the audit of local public bodies.

The audit fee covers the:

·   Audit of the financial statements

·   Value for money conclusion (n/a for the SPF)

·   Whole of Government accounts (n/a for the SPF).

For Staffordshire County Council and the Pension Fund we have set our indicative fee at the PSAA scale
fee level, assuming:

· The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;

· Your officers meet the agreed timetable of deliverables;

· You operate effective arrangements of internal control;

· Our accounts opinion and value for money conclusion being unqualified;

· You provide appropriate quality of documentation;

· You operate an effective control environment; and

· You provide prompt responses to our queries and our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2017/18, our audit planning process for 2018/19 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Summary of fees

	Indicative fee 2018/19 £	Planned fee 2017/18 £	Actual fee 2016/17 £
Total Code audit fee Staffordshire Council	84,511	** 109,755	* 122,067
Total Code audit fee Staffordshire PF	22,050	28,637	28,637
IAS19 assurances fee	TBC	TBC	* 5,500
Non audit work:	N/A	N/A	N/A

* The fee for 2016/17 includes a scale fee variation to reflect additional audit work we were required to undertake. This has been agreed by management and is awaiting approval by PSAA.

** We have discussed with management an increase in the fee for 2017/18 to reflect additional code work to address significant audit risks. The final fee will be subject to approval by PSAA.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £21,128 for the Council and £5,513 for the Pension Fund.

Audit plan

We expect to issue our plan by March 2019. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Director of Finance & Resources and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit and Standards Committee.

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

S R Clark

Stephen Clark
Partner
For and on behalf of Ernst & Young LLP
cc.   Andrew Burns, Director of Finance & Resources
          Martyn Tittley, Chair of Audit and Standards Committee

Audit and Standards Committee
Forward Plan
June 2017 – March 2019

If you would like to know more about our work programme, please get in touch with Tina Gould, Scrutiny and Support Manager, 01785 276148 or tina.gould@staffordshire.gov.uk

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
	26 June 2017			
External Audit Plan Ernst & Young			Progress Report	VfM work was well progressed but more work needed on BCF and integration with wider health economy. Members asked to be kept informed on developments re business rates
Internal Audit Report of the Director of Finance and Resources			• Outturn Report 2016-17 • Audit Charter 2017 • Strategy and Plan 2017-18	Adequate assurance judgement received on governance, risk and control framework; minor revisions to Internal Audit Charter were agreed and internal audit strategy and plan agreed. Members agreed the need for flexibility to address unplanned business.
SAP Replacement update Report of Director of Finance and Resources				Programme Manager explained the background to, governance and risk management associated with the new system and how elements of change would be managed.

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Code of Corporate Governance – 2017/18 Director of Strategy, Governance and Change *and* Director of Finance and Resources			Update on action plan	The new Code of Corporate Governance and resulting Action Plan were approved.
Procurement Regulations Report of the Director of Finance and Resources				The revised procurement regulations offered an enhanced level of robustness and were approved for inclusion in the constitution.
Induction training of the new Audit & Standards Committee				
	25 September 2017			
Statement of Accounts 2016/17 Report of Director of Finance and Resources			• County Council • Pension Fund	The Committee received a presentation explaining the Statement of Accounts for 2016-17: how they are prepared, where public money is spent in Staffordshire, the accounting concepts and principals and technicalities around the balance sheet.
Annual Governance Statement 2016/17 Director of Strategy, Governance & Change & Director of Finance & Resources				The governance statement explained how the CC followed the corporate code of governance and met the requirements of Accounts and Audit Regulations 2015 in preparing the statement of accounts. Members discussed the

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
				detail, understood that 2016-17 had been challenging in terms of MTFS and approved them.
Report to those charged with Governance Report of Ernst & Young				The report from External Auditors on how they conducted their audit and arrived at their conclusions was received.
Local Public Audit - Update Director of Finance & Resources				The Committee noted the sector led body procurement process for appointment of external auditors for the County Council from 2018-19. They asked to be advised of the level of audit fee over recent years.
Cyber Essentials Review Director of Finance and Resources			Exempt under paragraph 3 of LGA 1972	The Committee received a summary of the Internal Audit Review into the systems, controls and risks relating to the administration and control of processes for dealing with aspects deemed to have limited assurance. Members noted the progress against recommendations and asked for an update in March 2018.
	4 December 2017 meeting cancelled now 12 December			
Strategic Risk Register Director of Strategy Governance and Change and Director of Resources				Item deferred to 12 March 2018

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Health, Safety and Wellbeing Performance Annual Report 2016/17 Health, Safety and Wellbeing Manager				The report was received. Members requested that they receive emergency response and anti-terrorism training; that an update on mental wellbeing be provided to Members; that consideration be given to running Personal Resilience training to Members next year (NB arranged).
Annual Audit Letter 2016-17 Report of Ernst & Young				The report was received and accepted.
Internal Audit Plan 2017-18 Annual Update Report of the Director of Finance and Resources				The report was received and accepted.
New item: Internal Audit External Quality Assessment Report of Director of Finance and Resources				The report was received and accepted.
New item: National Fraud Initiative (NFI) 2016/17 - Update				The report was received and accepted.
	12 March 2018			
Strategic Risk Register Director of Strategy Governance and Change and Director of Finance and Resources				Item deferred from 12 December 2017 Item deferred to June 2018

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Annual Information Governance Statement Head of Business Support			Annual report	Further information (for clarification) on Appendices C and D of Statement requested and on the drop in incidents reported in April and July 2017.
Review of the effectiveness of the Audit & Standards Committee (including feedback on outcome of Members' workshop on 12 February) Director of Finance and Resources			Members will receive a questionnaire from the Head of Audit and Financial Services. This item will take the form of a Workshop to be arranged in early February 2018 with feedback to the 12 March meeting.	Workshop took place on 12 February and outcomes fed into the Review of the effectiveness of Audit and Standards report. The Head of Audit and Financial Services agreed to investigate if there was any relevant information on the Better Governance Forum on benchmarking that could be shared with Members.
Annual Report of the Management of Complaints made under the Members' Code of Conduct Director of Strategy, Governance and Change			Annual statement	The Committee noted the report. The Community Infrastructure Manager be asked to share with Members best practice on how to spend their Divisional Highways Budgets.
External Audit Plan 2017/18 Report of Ernst & Young				The report was received. The Chairman to write to the Cabinet Member for Finance (with a copy to the Chair of the Pensions Board) regarding staffing resources within the Pensions Team.
Interim Update Report 2017/18 Report of Ernst & Young				Deferred to June 2018

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Local Government Sector Update Report Report of Ernst & Young				The report was received.
Part Two - Cyber Essentials - Limited Assurance Review – Presentation by the interim Head of ICT and Head of Business Support			Update against recommendations.	The report was received. It was agreed that a further update was required in due course.
New item: Part Two: Fairer Charging and Welfare Benefits – limited assurance report Report of the Director of Finance and Resources				The report was received.
Work Programme				A further meeting to be added to the Work Programme in May 2018.
	13 June 2018			
New item: Appointment of Independent Remuneration Panel Members 2018-19 Report of Director of Strategy Governance and Change Officer: Ann-Marie Davidson				
New item: Correspondence received from Ernst & Young re audit fee 2018-2019				
Internal Audit Plan 2018-				

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
19 Report of the Director of Finance and Resources				
Internal Outturn Report 2017-18 Report of the Director of Finance and Resources				
Reports of Limited Assurance/Top ten Risks *(Part 2 of agenda)* Report of Director of Finance and Resources				
Audit Charter 2018 Report of Director of Finance and Resources				
Interim update report 2017/18 Report of Ernst & Young				
	30 July 2018			
Strategic Risk Register Joint Report of the Director of Strategy Governance and Change and Director of Finance and Resources				Deferred from 13 June 2018
Annual Governance Statement 2017-18 Report of Director of				

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Finance and Resources				
Statement of Accounts 2017-18 Report of Director of Finance and Resources				
Report to those charged with Governance (ISA 260) Report of Ernst & Young				
Code of Corporate Governance 2018/19 Joint Report of the Director of Strategy, Governance & Change and The Director of Finance & Resources				
Financial Regulations Report of the Director of Finance and Resources				
	24 September 2018			
Annual Audit Letter 2017-18 Report of Ernst & Young				
Local Government Sector Update Report Report of Ernst & Young				
New item: General Data Protection Regulation (GDPR) briefing/presentation Joint Report of the				

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Directors of Strategy, Governance and Change and Finance and Resources				
	30 October 2018			
Internal Audit Special Investigation/limited/ Top Risk Areas reports	As required			
	3 December 2018			
Health, Safety and Wellbeing Performance Annual Report 2017/18 Health, Safety and Wellbeing Manager			Annual update	
Part Two - Cyber Essentials Update – Presentation by the interim Head of ICT and Head of Business Support			At their meeting on 12 March 2018Members requested a further update	
	29 January 2019			
Internal Audit Special Investigation/limited/ Top Risk Areas reports	As required			
	11 March 2019			
Work programme for the Audit and Standards Committee	All meetings			
Proposed changes to the Constitution	As required			

Item and lead officer	Date of meeting	Links with Council strategic commissioning priorities	Detail	Action/Outcome
Internal Audit Special Investigation/limited/ Top Risk Areas reports	As required			
Other items:				

Membership	Calendar of Committee Meetings

Membership

Derek Davis, OBE
Mike Davies
Michael Greatorex
Martyn Tittley (Chairman)
David Brookes
Colin Greatorex
Syed Hussain
Ian Lawson

Paul Northcott
Jeremy Oates
Carolyn Trowbridge
(Vice-Chairman)
Ross Ward
Bernard Williams
Victoria Wilson
Jill Hood

Calendar of Committee Meetings
(All meetings at 10.00 a.m. unless otherwise stated)

26 June 2017
25 September 2017
4 December 2017 – meeting cancelled
12 December 2017
12 March 2018
13 June 2018
30 July 2018
24 September 2018
30 October 2018
3 December 2018 at 2.00 p.m.
29 January 2019
11 March 2019

Meetings usually take place at County Buildings, Martin Street, Stafford ST16 2LH