

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 6
<b>21 MARCH 2016</b>	<b>PUBLIC REPORT</b>

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Aitken, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

### INTERNAL AUDIT PLAN 2016 / 2017

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM : John Harrison, Corporate Director: Resources</b>	<b>Deadline date : N/A</b>
<p>The Committee is asked to examine the draft Internal Audit Plan for 2016 / 2017 and:</p> <ol style="list-style-type: none"> <li>1. Identify any areas for further consideration;</li> <li>2. Approve the draft Audit Plan and Audit Strategy;</li> <li>3. Note the contents of the Internal Audit Charter;</li> <li>4. Note the contents of the Code of Ethics; and</li> <li>5. Note the performance indicators set for the service.</li> </ol>	

#### 1. ORIGIN OF REPORT

This report is submitted to the Audit Committee in line with its agreed Work Programme for 2015 / 2016.

#### 2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to ensure that the Council reviews and agrees the audit activity for the next audit year.

2.2 This report is for Committee to consider under its Terms of Reference:

2.2.1.1 To consider the annual report and opinion of the Corporate Director Resources and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.

2.2.1.16 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

#### 3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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## **4. BACKGROUND**

- 4.1 In accordance with legislative, regulatory and best practice requirements, PCC has made arrangements for a continuous internal audit to examine the accounting, financial and other operations of the organisation.
- 4.2 Resources within the team and the plan are based on a full complement of staff, which at 5.16 FTE is slightly less than the previous year. The Chief Internal Auditor post continues to be shared with Cambridge City Council (40%) and South Cambridgeshire District Council (20%). The distribution of the remaining 40% allocated to PCC is estimated to be 20% internal audit focused and 20% insurance and fraud investigations (20% equating to 1 day per week). This has been factored into current and future plans.
- 4.3 This report provides an overview of the stages followed prior to the formulation of the Annual Audit Plan for 2016 / 2017. The Annual Audit Plan will then serve as the work programme for Internal Audit and provide the basis upon which the Chief Internal Auditor will subsequently give Audit Opinions on Peterborough City Council's (PCC) system of internal control and risk management, and corporate governance arrangements for 2016 / 2017.
- 4.4 A number of key supporting papers have been reviewed – e.g. Audit Charter (how we work), Code of Ethics (clarity on conduct) and Performance Indicators (how we monitor service delivery). In conjunction with these documents, an insight into future audit input envisaged is set out in the Strategy alongside a more detailed analysis of audit assignments being lined up for the next financial year.
- 4.5 Members' attention is also drawn to the fact that the Audit Charter has been updated with a slight change to the terminology we use for audit opinions. The proposal is to move from: FULL; SIGNIFICANT; LIMITED and NO ASSURANCE; to SUBSTANTIAL, REASONABLE; LIMITED and NO ASSURANCE. The aim of this is to reduce the perceived gap that currently exists between "significant" and "limited" assurance opinions, and is an acknowledgement that we cannot give absolute assurance on any system and rarely award 'full' assurance. All audits undertaken from the 2016-17 plan onwards will use the new terminology, whereas those audits from the 2015-16 plan that are completed after April 2016 will use the old terminology.

## **5. THE AUDIT CHARTER**

- 5.1 The Public Sector Internal Audit Standards have been primarily introduced to:
- Define the nature of internal auditing;
  - Set basic principles for carrying out internal audit;
  - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
  - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 5.2 As part of evidencing that these requirements are being adhered to, there is a duty on the Internal Audit Service to have an Audit Charter which demonstrates how these elements are being handled and managed. This was last presented to Audit Committee in March 2015. The attached Charter covers off the above requirements, acknowledging too that some additional appendices have been needed to give

further clarity on important issues such as the Code of Ethics and the Performance Indicators adopted by the Internal Audit function.

- 5.3 Finally, there is an obligation under the mandatory standards to review and re-present the Audit Charter to Audit Committee annually. The Charter has to be re-evaluated to confirm its ongoing validity and completeness, and thereafter, the documentation requires the scrutiny and endorsement of senior management and the Audit Committee. The Audit Charter can be found attached at **APPENDIX A**.

## **6. CODE OF ETHICS**

- 6.1 The Code of Ethics sets out the expected behaviours of Internal Audit staff in relation to service delivery and is attached at **APPENDIX B**. The basis of standards of conduct for 2016 / 2017 remain unchanged with reference to those followed by Internal Audit in previous years, as the Code of Ethics developed for the current financial year was originally rewritten to mirror the incoming obligations in this area as per the Public Sector Internal Audit Standards.
- 6.2 Aside from the Code of Ethics, the Chief Internal Auditor in the role of the Chief Audit Executive will also be cognisant of and comply with requirements laid down in CIPFA's Statement on the Role of the Head of Internal Audit, and it is further acknowledged that all Internal Audit staff will operate in accordance with their own professional bodies' Code of Ethics, as well as any organisational Codes of Ethics or Conduct relating to their employer.

## **7. INTERNAL AUDIT STRATEGY AND AUDIT PLAN**

- 7.1 The Internal Audit Strategy has the overarching purpose of establishing how the annual programme of audit assignments has been devised, in terms of the process followed when undertaking the annual audit needs assessment, the risk factors applied and how this information is then used to populate the Annual Audit Plans. It is attached at **APPENDIX C**.
- 7.2 The Public Sector Internal Audit Standards recommends Internal Audit undertake annual assessments of the provisions in these areas and this is set out in the document.
- 7.3 The overarching objective of the Audit Plan is to provide a comprehensive programme of review work, sufficient to enable an informed annual opinion and to develop the organisation's Annual Governance Statement. We have produced an Audit Plan which satisfies the obligations of the Public Sector Internal Audit Standards, and provides an acceptable minimum level of audit coverage capable of generating the requisite audit assurances to the organisation, whilst also being affordable.
- 7.4 The Annual Audit Plan for 2016/17 totals 795 days, encompassing various assignments. The assignments have been developed to ensure that the Corporate Management Team and the Audit Committee have a clear understanding as to the direction of Internal Audit work over the course of the new financial year, but additionally that External Audit receive a steer as to the focus of individual audits over the coming year.
- 7.5 Summary details offers a starting point for more detailed audit planning meetings with management. However, the guidance therein should be viewed with some flexibility, as the scope and subsequent parameters for some audits may need to

alter in the event of changing corporate priorities or emerging risks, or terms of reference requiring adoption may not become wholly clear until discussions have been held with management as to the key priorities and risks facing service delivery, as well as due consideration being given to how forthcoming audits might potentially add further value for the organisation.

7.6 The CIA also has responsibility for the Corporate Compliance Team, which undertakes investigations into: breaches of the Code of Conduct; disciplinaries; allegations of fraud e.g. Council Tax support or blue badge abuse; and also stage 2 complaints. Workload levels have resulted in the occasional shortage of resource to investigate these. Proposals going forward suggest that the work of Internal Audit complement these reviews; so there may be the odd occasion when Internal Audit staff could undertake this work. On the basis that 40 days are allocated from the audit resources, this would equate to the removal of approximately 3 audits and these would be based on those of least priority. There is also a contingency budget (80 days) which could be utilised. The audit plan presented has not currently made provision for this work.

7.7 As in previous years, should any significant additional work be required by Members or Officers, which leads to the potential for resources required exceeding the amount set aside, then the Chief Internal Auditor will establish the course of action to be taken in consultation with the Corporate Director: Resources and the Chair of Audit Committee. In the event of this occurring, a separate report will be produced to inform all Members of the Committee.

## **8 PERFORMANCE INDICATORS**

8.1 As part of the ongoing appraisal of the service, various indicators have been set to ensure delivery against best practice and also to monitor individual and service performance. These are set out in **APPENDIX D** are referred through Committee as part of the reporting process.

## **9. CONSULTATION**

9.1 The new Audit Plan proposals have been referred to / agreed with Corporate Director: Resources (specifically in his role as Section 151 Officer) and the Service Director: Financial Services (in his role as Line Manager), as well as representatives of the Corporate Management Team.

9.2 It has also been submitted to External Audit for information and comment.

## **10. ANTICIPATED OUTCOMES**

10.1 In reviewing and approving the Audit Charter and related strategic and operational audit planning information, the Audit Committee is making appropriate provisions to ensure that the Internal Audit requirements as stated in the Local Government Finance Act 1982, c.32 and the Accounts and Audit Regulations 2011 are being properly met, and due support is being given to securing an Internal Audit Service, which is compliant with statutory internal auditing standards applicable to public sector organisations.

10.2 Approval of the Annual Plan and associated documents.

## **11. REASONS FOR RECOMMENDATIONS**

- 11.1 The Council is subject to the Accounts and Audit Regulations and, as such, must make provision for Internal Audit in accordance with the CIPFA Code of Practice and the Public Sector Internal Audit Standards. It must also produce an Annual Governance Statement to be published with the Council's financial accounts. The attached reports demonstrate how the audit service will be provided and how it will contribute to the Statement.

## **12. ALTERNATIVE OPTIONS CONSIDERED**

- 12.1 The Internal Audit plan could be constructed on a cyclical basis, thus covering all areas of the Council over a period of time. This does not concord with current professional guidance and would not seek to target the limited resource available to areas of high risk.

## **13. IMPLICATIONS**

- 13.1 There would be a legal implication if an Internal Audit service was not provided for, and if mechanisms were not in place to carry out a review of internal control, governance and risk management as a basis for the Annual Governance Statement.

## **14. BACKGROUND DOCUMENTS**

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- Public Sector Internal Audit Standards 2013
- Accounts and Audit Regulations 2011
- Local Government Act 1972
- Committee papers
- Risk Registers

## **15. APPENDICES**

- Appendix A: Audit Charter
- Appendix B: Code of Ethics
- Appendix C: Audit Strategy and Audit Plan
- Appendix D: Performance Indicators

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