PETERBOROUGH CITY COUNCIL **INTERNAL AUDIT STRATEGY AND PLAN 2017/18**

1   INTRODUCTION

1.1   This document is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council. It will be reviewed throughout the year to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.

1.2   The Accounts and Audit Regulations 2011 stipulate that a council should maintain "a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk". The regulations also provide that council's "undertake an adequate and effective internal audit of its accounting records and of its system of internal control" in accordance with the Public Sector Internal Audit Standards. The Council's Internal Audit team are bound by the mandatory requirements of these standards.

1.3   Internal Audit Role

1.4   Internal audit is defined as 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, control and governance processes

1.5   The provision of assurance is the key role for Internal Audit. This role requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This audit opinion is provided to the Audit Committee and also feeds into the Annual Governance Statement.

1.6   The role of Internal Audit, therefore, is to understand the key risks to the Council's objectives and to evaluate the adequacy and effectiveness of management's response to those risks. An overview of risk management and governance processes and key financial controls is also a significant aspect of our work.

1.7   Consulting services are advisory in nature and are generally performed at the specific request of management, with the aim of improving operations. Requests of this nature are considered in light of resource availability and our primary role of assurance.

2 INTERNAL AUDIT PLANNING PROCESS

2.1 Annually, Internal Audit conducts a risk-based audit planning process to ensure that all areas of the Council operations (and external partners, where appropriate) are provided with an appropriate and structured Internal Audit service to assist in the continuous improvement process. The purpose is to align audit effort with those areas assessed as posing the greatest risk to the Council. The following sources of information have been used in identifying the priorities put forward for audit coverage:

- Council objectives;
- Medium Term Financial Strategy;
- The Council's strategic and operational risk registers;
- The Council's IT Strategy;
- Consultations with individual directors and their management teams
- Consultation with the council's external auditor
- Consultation with the Audit committee, at this meeting.

2.2 A number of themes have been considered in the preparation of the 2017 / 2018 Internal Audit Plan. These are:

- **Financial pressures** faced by the Council and the resultant changes to **service delivery arrangements** as well as large scale **projects** designed to introduce more efficient and effective ways of working.
- **Counter Fraud**. Taking a proactive approach and building on the anti-fraud culture within the authority.
- **Contracts and Partnerships**. This is an essential component of the audit process, especially given the increasing dependence on external suppliers and partners, and the move towards a predominantly commissioning approach;
- **Information governance, particularly in relation to data sharing**;
- **Schools.** Governance, statutory and financial management processes linked with the Schools Financial Value Standard (SFVS);
- **IT and Digital Strategies.** Changes to systems and the move towards agile working and greater dependence on mobile/remote technology**.**
- **Grants** and the increasing requirement for independent verification and certification.
- **Combined Authority** and the potential for aligned reviews if work is to be undertaken for both organisations.

3 STRATEGY FOR DELIVERY OF THE PLAN

3.1 Audit Resources

3.1.1 The Internal Audit Service is provided in-house, overseen by a shared Head of Internal Audit. The Internal Audit establishment is 5.46 FTE (detailed below). This is a slight increase to 2016/17 (0.3) as a result of changes to the shared service arrangement which are envisaged will be effective from October 2017 (see 3.2.1). The Plan has been compiled on the basis of 5.46 FTE in post throughout the year. If resources drop below this level, consideration will be given to the options of recruitment or agency staff (see 3.1.3)

Post Name	FTE	
Chief Internal Auditor	0.70	0.60 of post provided to Cambridge City and South Cambs DC until September 2017
Group Auditor	1.46	
Principal Auditor	0.50	
Senior Auditor	1.80	
Auditor	1.00	
Total establishment	5.46	

3.1.2 The Chief Internal Auditor is charged with management responsibility for both the Insurance and the Investigations Teams at Peterborough City Council as well as overseeing / undertaking any Stage 2 Corporate Complaints as deemed appropriate. Management time is planned on the basis of 20% to Internal Audit (1 day per week), with the remaining 20% covering the other two service areas (0.5 day per service per week) for the first six months of 2017/18.

3.1.3 As stated in 3.1.1 the plan is assuming that the team will be fully resourced during the year. It has recently been identified that a team member will be taking early retirement next year which will create a 0.8fte vacancy. The intention is to recruit to this position and options will be explored as to the requirements for the role and the potential for increasing the post to 1.0fte. On this basis the number of days available have not been reduced but if recruitment is delayed there may be some impact on the delivery of the plan.

3.2 Shared Management Arrangement

3.2.1 A shared management arrangement with Cambridge City Council has been in operation since January 2011, and South Cambridgeshire District Council joined in July 2013. The aim has been to share knowledge and best practice, and to increase flexibility and efficiency whilst driving down costs through economies of scale. The audit teams have continued to remain distinct entities with the main impact for PCC resulting in a 60% reduction in the time available from the Chief Internal Auditor, along with an associated reduction in costs. Any savings generated have assisted in meeting budget pressures corporately. During 2016 Cambridge City Council and South Cambridgeshire District Council reviewed their internal audit arrangements and agreed to explore joint working with Huntingdonshire District Council, aligning to the business model already operating for other services within the three authorities. Peterborough City Council were therefore working towards terminating the current shared service arrangement from April 2017. Huntingdonshire District Council have subsequently opted not to join the shared service and Peterborough have agreed to continue to manage the remaining two internal audit

teams until September when alternative management arrangements are likely to be in place. The savings generated over the six month period will go back to the corporate pot to assist in meeting future budget pressures.

3.3   External Works

3.3.1   PCC Internal Audit provides audit services to Vivacity–Peterborough which is managed through a Service Level Agreement. The contract arrangements have been operational since 2010. These reviews are client confidential and as a result their outcomes are only available to Vivacity. This work is in addition to the shared service arrangements detailed in 3.2 of this report.

3.3.2   In addition to the external work provided to Vivacity Peterborough it is possible that Internal Audit may be requested to provide internal audit services to the new Combined Authority which will be operational from March 2017. This is primarily due to PCC's finance systems being utilised on behalf of the Combined Authority. A nominal amount of time has been allocated from resources should internal audit services be required. Any work undertaken will be chargeable to the Combined Authority. Audit Committee will be advised of any activity as part of our reporting arrangements together with any potential resourcing impact on the team delivering the audit plan for PCC.

3.3   **Development of the Audit Service**

3.3.1   The Internal Audit team will operate to the mandatory professional standards outlined in the Public Sector Internal Audit Standards (PSIAS). This will include:
- Robust quality control of the work conducted
- Regular training needs assessment to ensure that appropriate skills are available.
- Continued update and development of audit procedures to ensure that best practice is followed and the service is provided in the most cost efficient manner. This will include ongoing review and refinement of our use of audit software as the team become more agile in ways of working.

4   OVERVIEW OF PLAN

The Plan for 2017 / 2018 aims to give the Council the best audit coverage within the resources currently available. Though it is compiled and presented as a plan of work, it must be recognised that it can only be a statement of intent. Whilst every effort will be made to deliver the plan, Internal Audit recognises that it needs to be flexible. Actual audit work therefore may be modified during the year according to the circumstances prevailing at the time (see 3.3.2 with regards to Combined Authority).

The basis of the Plan is the work required to fulfil our assurance role, but Internal Audit aims to add value in our work by focusing on those areas that are important to the Council, in terms of strategic priorities as well as the risks that we face. The plan covers core assurance work (financial systems, schools, grant certification, annual governance processes) as well as reviews of the controls mitigating some of our major risks including how we deliver services in different ways and consultancy support work. A continuing theme will be around the financial risks facing the Council and we intend to provide assurance that our processes maximise income and robustly control expenditure. The Chief Internal Auditor, along with the whole Internal Audit Team, are fully committed to delivering a high quality and responsive Internal Audit service to the City Council. With this in mind, they will be seeking throughout the year to continue to develop the service in accordance with recognised best practice. The overall allocation of the estimated 811 days shown in Table 1 below.

Table 1: Internal Audit Work Activities		
	Days:	**%**
Core Systems Assurance Work	51	7
Annual Governance and Assurance Framework	70	9
Anti-Fraud Culture	110	14
Delivering Services in Different Ways	130	16
Strategic and Operational Risks	90	11
External Works	100	12
Certification	70	8
Other Resource Provisions	190	23
TOTAL RESOURCES ALLOCATED	**811**	**100.0**

4.1 Core Systems Assurance Work

Audits of the main financial systems of the Council are generally undertaken on a cyclical basis. The audit plan for 2017 / 2018 includes reviews of budgetary control, payroll and accounts receivable. Our input to the project to implement a new HR system (which feeds into the Payroll system) will continue this year. The systems implementation was deferred during 2016 but it is understood some modules will be progressed during 2017. We will co-ordinate our work with our External Auditors to ensure that there is no duplication of effort.

4.2 Annual Governance and Assurance Framework

The work outlined in this section feeds directly into the production of the Annual Governance Statement and provides a high level overview of the governance arrangements at the Council. We will continue to review compliance with this, focussing on the areas of ethics and / or performance management.

4.3 Anti-fraud Culture

A greater focus will be made with regards to a pro-active approach to fraud and controls to mitigate fraud risk. This will be directed in part as a result of a report issued by the Home Office highlighting the risk of organised crime associated with procurement activities as well as safeguarding issues arising and conflicts of interests. The report recommends a collaborative approach with other agencies such as the police and this will be developed during the year. In addition to this, it is intended to facilitate the development of a fraud risk register along with any required mitigating actions to provide assurance / help to reduce the risk of fraud. The National Fraud Initiative exercise which is undertaken every two years is also due to commence during 2017.

4.4 Delivering Council Services through New Ways of Working

The authority is continually reviewing how it can deliver services more effectively through different ways of working. Our approach will be to focus on the strategic risks faced by the organisation in delivering this area of activity. Internal Audit will focus on providing assurance with regards to:

- Programme and Project Management;
- Contracts;
- Strategic Partnerships; and
- Commercial Activities

4.5   **Strategic and Operational Risks**

A proportionate amount of our time has been allocated to this important area of work. Audits have been included as a result of risks identified by management or Internal Audit, or following a management request. In particular, Internal Audit intends to add value by providing assurance in areas which impact on a number of the Council's strategic risks, including:

- Highways Asset Management;
- Information governance; and
- Schools.

4.5   **Grant Certification**

As a result of the organisation continuing to receive and obtain grant funding, the demand for internal audit to certify grant claims continues. Also included in this area of the plan is other verification work carried out in line with Government or other funding requirements.

4.6   **Other Resource Provisions**

Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks and special investigations. Contingency time is included for such events along with the provision for consultancy work that may be undertaken by the Chief Internal Auditor or other members of the audit team.

PETERBOROUGH CITY COUNCIL: INTERNAL AUDIT PLAN 2017 / 2018

VISION FOR THE CITY
STRATEGIC PRIORITIES
1 Drive growth, regeneration and economic development.
2 Improve educational attainment and skills.
3 Safeguard vulnerable children and adults.
4 Implement the Environment Capital agenda.
5 Supporting Peterborough's culture and leisure trust Vivacity.
6 Keep all our communities safe, cohesive and healthy.
7 Achieve the best health and wellbeing for the city.

Draft Internal Audit Plan 2017 / 2018

SERVICE / SYSTEM	COUNCIL OBJECTIVE	OUTLINE AUDIT SCOPE	Priority	
			Rating	Reason
CORE SYSTEM ASSURANCE WORK Core systems are those that are fundamental to providing control assurance for internal financial control and allow the s.151 officer to make his statement included in the authority's Annual Statement of Accounts.				
Budgetary Control	ALL	A risk based review concentrating on budget management within one or more directorates, or on a major project. Focus to be on the risks highlighted of: • budget managers failing to forecast accurately • budget managers failing to manage budgets within control totals	High	Core audit assurance Strategic Risk Register – Financial Pressure (red)
Payroll	ALL	A review of payroll arrangements both centrally and within departments to include starter, leavers and variations to pay.	High	Core audit assurance
Accounts Receivable – Debt Recovery	ALL	A follow on review of billing and debt recovery arrangements centrally and within specific departments to establish the effectiveness and progress of recovery arrangements since the previous review.	High	Core audit assurance
HR IT System	ALL	A review of the control framework during the design and implementation of a new HR IT system designed to enable self-service. Modules likely to be introduced include recruitment with others being reviewed as identified. Highlighted Risk: Failure to achieve potential benefits/business needed from IT investment.	High	Major changes to system Core audit assurance Governance Risk Register (red)
			TOTAL AUDIT DAYS	**50**

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
ANNUAL GOVERNANCE AND ASSURANCE FRAMEWORK Each year the Council is obliged to issue a statement on the effectiveness of its governance arrangements. This section details audit work that specifically relates to the production of the Annual Governance Statement, as well as high level governance reviews.				
Annual Governance Statement Review	ALL	Process and framework to feed into work on Annual Governance Statement for 2016/17, including a review of recommendations made by External Audit in their annual letter and verification of implementation / progress; and co-ordination and review of the annual assurance statements made by Directors.	High	Compliance with Accounts and Audit Regulations
Code of Corporate Governance	ALL	Review of our compliance with the new CIPFA framework for Delivering Good Governance in Local Government, with a focus on the principles of ethical values and/or performance management.	High	Compliance with mandatory audit standards
Annual Audit Opinion	ALL	Internal Audit opinion on the state of governance, risk management and the internal control framework in place within the Council.	High	Compliance with mandatory audit standards
Annual Audit Plan	ALL	Establishment of the annual audit plan for 2018-2019 based on a systematic risk assessment across the Council. This includes a review of the corporate risk registers and the Medium Term Financial Strategy together with consultation with Directors and Heads of Service.	High	Compliance with mandatory audit standards
Internal Audit / Audit Committee Effectiveness	ALL	Review of the internal audit service against the new Public Sector Internal Audit Standards and a best practice review of the Audit Committee.	High	Compliance with mandatory audit standards
Annual Investigation Report	ALL	Report and opinion on the activities undertaken by the investigations team regarding counter fraud and the control framework in place within the Council.	High	Corporate responsibility to protect finite resources.
Information Governance	ALL	Liaison and strategic overview as part of the Strategic Governance Board and Information Governance Group.	Medium	Core audit assurance Strategic Risk Register - Amber
Risk Management	ALL	Involvement in risk working group and any emerging issues.	Medium	Core audit assurance
			TOTAL AUDIT DAYS	**70**

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
ANTI-FRAUD CULTURE .The Councils approach to assessing controls and mitigating the risk of fraud				
National Fraud Initiative	ALL	A review of the data matches for the 2017 NFI exercise to include liaison with other authorities and external bodies. Data sets include:	High	Corporate responsibility to protect finite resources
Serious and Organised Crime	ALL	The Serious and Organised Crime (SOC) report was issued in December 2016 and makes various recommendations on the key areas subject to risk of organised crime. A collaborative approach is recommended and selected aspects of the report are to be reviewed: Facilitation of a self-assessment anti-fraud health check – High level review of the SOC check list covering a range of areas such as Strategy, Communication, Data Sharing, Risk Management. Review of Passenger Transport procurement and contract management arrangements – to include responsibility for DBS and safeguarding both at contract procurement and subsequent monitoring during the contract life. Taxi Licensing – Processes for the issuing of taxi licenses to include safeguarding and changes in licensing arrangements, Gifts and Hospitality / Officer and Member External Interests Register – Covering the processes in place to protect against 'Insider Threat' aspects of the SOC report.	High	Corporate responsibility to protect finite resources Strategic Risk Register – Safeguarding (Red)
Fraud Risk Register	ALL	Facilitation of the development of a fraud risk register	High	Corporate responsibility to protect finite resources
Corporate Fraud Policies	ALL	A review and update of the Corporate Fraud Strategy and the associated whistleblowing, investigations and anti-bribery protocols.	High	Corporate responsibility to protect finite resources
			TOTAL AUDIT DAYS	**105**

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
DELIVERING COUNCIL SERVICES THROUGH NEW WAYS OF WORKING Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks				
Programme / Project Management	ALL	A review of some selected projects or programmes to ensure they are being managed effectively. Examples include E-Sourcing System (Source Dogg), a system supporting tendering and Contract/Supplier Management. Customer Experience Programme (New PCC Intranet), Cityfibre Stage 2, other projects contributing to the delivery of the digital strategy including agile working, Building Control system Highlighted risk: Project and Programme failure through lack of oversight.	High	Core audit assurance
Contracts	ALL	A review of selected contracts to ensure that all aspects of the tendering and management of contracts follows best practice and results in value for money. To include compliance with the Public Contract Regulations and internal Contract Rules. For example, the MRF Contract review or TACT (The Adolescent & Children's Trust)	High	Core audit assurance
Strategic Partnerships	ALL	Review the Council's management of strategic partners, which include Norwich Property Services (NPS), Serco, Skanska, Amey and Vivacity, to ensure that effective governance arrangements are in place. Highlighted Risk: Strategic Partnerships fail to deliver as per contract/expectations.	High	Strategic Risk Registers (Amber)
Commercial Activities	1,4	A review of governance arrangements in those areas where commercial activities and joint ventures are taking place, for example: the Peterborough Investment Partnership, ESCO, Opportunity Peterborough etc. Highlighted Risk: Failure to plan for implications of the Growth Agenda	High	New service delivery arrangements Strategic Risk Register (Amber)
			TOTAL AUDIT DAYS	**100**

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
STRATEGIC AND OPERATIONAL RISKS Internal Audit provides support to Council and Directorate objectives by testing the effectiveness of controls designed to mitigate identified risks				
Highways Asset Management System		Review of the data quality and completeness of the Asset Management Valuation Toolkit	High	Core audit assurance
Information Governance	ALL	A review of our compliance with ICO requirements focussing on some specific areas. In particular we will look at: • Data Sharing • Freedom of Information. Highlighted Risk: Lack of controls could subject the council to significant risk from litigation, financial penalties and loss of reputation.	High	Strategic Risk Register (Amber)
School Places	1,2	A review of one aspect of mitigating actions to monitor in year admissions and trends around numbers leaving the city, in particular processes and forms being developed to improve data collection	Medium	Strategic Risk Register (Red)
Schools	1, 2	Themed reviews of a variety of schools. For example, SEN funding or selected categories from the Schools Financial Value Standard self-assessment.	Medium	Core audit assurance
Registrars		Review of certificate stocks and finances as part of the HMG Security Policy Framework	Low	Core audit Service / assurance to other organisations
Blue Badges	6	A review of processes for issuing and cancelling permits.	Low	Follow-up to issues found during NFI work.
			TOTAL AUDIT DAYS	**85**

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
CERTIFICATION Certification of grant claims in relation to funding received from government and other funding bodies, as well as other submissions we are required to make to government.				
Growth and Regeneration	ALL	Bus Service Operators 2016/17 - A grant to support bus services, including community transport services.	High	To meet government and funding requirements.
Growth and Regeneration	ALL	Local Transport Funding Grant 2016/17 - This grant is used by local authorities for small transport improvement schemes costing less than £5 million and also for planning and managing the road networks.	High	
Growth and Regeneration	ALL	Local Sustainable Transport Grant 2016/17 – A scheme to help local authorities to cut carbon emissions and create local growth.	High	
People and Communities	ALL	Disabled Facilities Grant 2016/17 - Non ring-fenced capital funding towards Disabled Facilities grants that PCC can award to disabled clients for necessary housing alterations.	High	
People and Communities	ALL	Troubled Families - Results based funding to support families meeting certain criteria. Verification of a sample of claims prior to one of the claim submissions in 2017, and a review of Outcomes Plan and procedures.	High	
People and Communities	ALL	Rogue Landlords – Outputs based funding covering criteria such as inspection numbers, street surveyed and enforcement actions.	High	
Growth and Regeneration	4,6	Carbon Reduction Commitment. Annual data validity audit and a review of changes to methodology with regards to a new automated system for data collection.	Medium	
People and Communities	1,2	The National College for Leading and Teaching Grant 2017 – Work undertaken on behalf of The Phoenix School which includes certification of bursaries, school to school support and core grant funding.	Low	
			TOTAL AUDIT DAYS	**67**

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	TOTAL
OTHER RESOURCE PROVISIONS (CORPORATE SUPPORT) Throughout the year audit activities will include reviews that have not been specified within the plan and may include management requests as a result of changing risks. In addition there will be a number of follow ups of previous audit activities. Finally, a number of jobs will overlap between financial years and require some time to complete.			
Carry Forward Activities	ALL	Provision for the completion of 2016-17 audits	50
Follow Up Provision	ALL	Revisiting audits after 6 months to monitor the implementation of recommendations	30
Requested Work Contingency	ALL	Allowance exists to provide flexibility within the audit plan for time spent on providing risk and control advice to officers, management /members and ad hoc requests and consultancy work.	50
Committee Support	-	Production of reports and attendance at Council committees and boards	30
		TOTAL AUDIT DAYS	**160**