

AUDIT COMMITTEE	AGENDA ITEM No. 6
12 FEBRUARY 2018	PUBLIC REPORT

Report of:	Marion Kelly - Interim Corporate Director Resources	
Cabinet Member(s) responsible:	Councillor Seaton Cabinet Member for Resources	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel: 384557

INTERNAL AUDIT PLAN 2018/2019: PLANNING APPROACH AND EMERGING THEMES

R E C O M M E N D A T I O N S	
FROM: Steve Crabtree, Chief Internal Auditor	Deadline date: N/A
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> 1. Note and comment upon the risk based planning approach being used to develop the Internal Audit Plan for 2018 / 2019. 2. Note and comment upon the emerging themes to be considered for inclusion in the Internal Audit Plan 	

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine planned report on the development of Internal Audit.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide Members with an update on progress in developing the audit plan

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.9 “*To commission work from internal and external audit.*”

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
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4. BACKGROUND AND KEY ISSUES

4.1 INTRODUCTION

4.1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Chief Audit Executive must “*establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals*”. Within Peterborough City Council (PCC), the role of Chief Audit Executive is undertaken by the Chief Internal Auditor.

4.1.2 In an ever changing risk and control environment, it is important that audit plans can adapt

quickly to the needs of the Council. Whilst we have always adopted a flexible approach to our work, we are now introducing an assessment and planning tool that will be used throughout the year on a rolling basis. This will ensure that each 'next' piece of work is the highest priority one, according to our assessment of risk.

- 4.1.3 This is an innovative approach that has been developed by Suffolk County Council auditors, which we are adapting to fit with the needs of Peterborough.

4.2 **APPROACH**

- 4.2.1 Research is currently underway to determine possible themes and areas for audit work. This includes consulting with senior management and reviewing risk registers, budgets, plans, decisions, project and contract registers.

- 4.2.2 The list of ideas that this generates will then be subject to an assessment, using our new planning tool (see **Appendix A** for details). The key factors being assessed are:

- **Materiality:** The size of a system or process in terms of financial value or numbers of transactions or number of people affected.
- **Corporate Importance:** The extent to which the Council depends on the system to meet statutory or regulatory requirements or corporate priorities.
- **Stability:** The degree of change within the process.
- **Vulnerability:** Extent to which the system is liable to breakdown, loss, error or fraud.
- **Specific concerns:** Arising from management's assessment of risk as well as audit intelligence.

- 4.2.3 The Annual Audit Plan will be compiled on the basis of:

- The prioritised list of potential audit reviews generated by the above assessment.
- The number of audit days available for the year.
- The skills, knowledge and experience of audit staff.
- Information from other assurance providers.
- An allowance for statutory activities, ad hoc consultancy, supporting the democratic process and follow-up reviews

- 4.2.4 During the year, we will apply our assessment tool to any new risks that emerge or concerns that are raised, and thus determine its priority for review compared to those areas already in the plan. Coordination between Internal Audit and Risk Management functions is of value here in "horizon scanning" such that emerging local and national risks are identified and can be covered in audit work where appropriate.

- 4.2.5 We will also explore the development of an assurance framework as part of this and future year's plans. This will map the controls in key areas to the sources of assurance for those controls. It will provide valuable insight for management and will also give the Chief Internal Auditor an oversight of the control framework at the Council, which will feed into the Annual Opinion report at the end of the year. The assurance framework will be based on the Three Lines of Defence model, which categorises assurance according to its source:

- **First Line of Defence:** Operational managers and staff carrying out day to day responsibilities and monitoring activities.
- **Second Line of Defence:** Oversight functions that set policy and process and monitor implementation, such as HR, Finance, Health and Safety, Legal, Procurement, ICT and Property.
- **Third Line of Defence:** Independent assurance providers, such as Internal and External Audit as well as regulators.

4.3 **THEMES EMERGING**

- 4.3.1 Following our initial works as determined in 4.2.1, the following areas have been identified for potential coverage. Assurance will be established from elsewhere in the business if

appropriate.

4.3.2 Financial Governance

- Budget savings delivery linked to transformation of services and changes in service delivery models;
- Capital expenditure - arrangements for bidding, approving and monitoring capital spend;
- Corporate financial systems and providing assurance for External Audit; and
- Impact of cash office closure

4.3.3 Information Governance

- The new data protection regulations due for implementation in May 2018 (GDPR);
- Cyber security including compliance with PCI and PSN requirements;
- Data sharing with third parties;
- Quality of data being used in management decisions; and
- Review of the Information Strategy

4.3.4 Corporate Governance

- Risk management;
- Performance management;
- business continuity;
- culture and ethics;
- Partnerships, Joint Ventures and shared services;
- Anti-fraud and corruption; and
- Ongoing governance, risk and control impacts of devolution

4.3.5 Contracts

- post Amey arrangements;
- contract management; and
- commissioning and outsourcing of services

4.3.6 Projects

- Fletton Quays / Agile working;
- Homelessness;
- The Pupil Referral Unit; and
- Programme / project management arrangements

4.3.7 People Management

- Apprenticeship Levy targets;
- Safeguarding; and
- Compliance with recruitment policies

4.4 Other Activities

Internal Audit also provides support for other activities of the Council as well as to other organisations. These include:

- Grant certification;
- Cambridgeshire and Peterborough Combined Authority; and
- Vivacity

4.6 It should be reiterated that this is the initial data collection and not all areas will be covered either as a result of low scoring or finite resources. Furthermore, if the audit area is included in future audit plans it does not imply that a service, system or activity is poor - it indicates activities that most need to be subject to effective controls to manage the risks identified.

5. **CONSULTATION**

5.1 Consultation to date has taken place with the following parties:

- Interim Corporate Director Resources; and
- Service Director Financial Services

Further consultation is in train with other Directors and their Management Teams.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 Audit Committee note and comment on the contents of this report.

7. REASON FOR THE RECOMMENDATION

7.1 To provide members with an insight into the development of the audit plan to provide assurance to the Council on its governance and operations.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None

9. IMPLICATIONS

Financial Implications

9.1 The Audit Plan needs to be deliverable within available resources and the achievement of the audit plan will be based on the assumption that the current structure remains essentially unaltered and intact throughout the year. Resource requirements are reviewed each year as part of the planning process and are discussed with the s.151 officer.

Legal Implications

9.2 The Accounts and Audit Regulations 2015 require the Council to have a sound system of internal control which includes effective arrangements for the management of risk, controls and governance.

Equalities Implications

9.3 The identification of risks and the proper management of those risks will ensure that:

- The Council's environmental policies and ambitions can be met; the Council is able to mitigate against potential financial losses, litigation claims and reputational damage; the Council is able to effectively deliver the strategic priorities.

10. BACKGROUND DOCUMENTS

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

10.1 None.

INTERNAL AUDIT PLANNING AND ASSESSMENT TOOL

<i>Category</i>	<i>Weight</i>	<i>Description</i>	<i>Total Possible Category Score</i>
Materiality	1	Value (budgeted income and expenditure; contract values; project costs etc) and volume (number of transactions, number of staff/public affected). 1= up to £100k or 100 transactions 2= £100k-£1m, or 100-1000 transactions 3= £1-10m, or 1000-10,000 transactions 4= £10-£100m, 10,000 or 100,000 transactions 5= £100m plus, or 100,000 plus transactions Score 1 to 5 (1= low, 5 = high).	5
Stability	2	Amount of change within a system or process. Growth in size or responsibilities; staff turn-over; legislative change; new or upgraded IT systems; cultural change; new service delivery models; significant internal policy change. Score 1 to 5 (1= low, 5 = high)	10
Vulnerability	4	Inherent risks (fraud, corruption, error, commercial or sensitive information, health and safety, vulnerable adults and children). Control environment (limited central control or ownership, poor physical security, high turn-over of staff, complexity of systems and processes, poor SoD, lack of expertise) Score 1 to 5 (1= low, 5 = high)	20
Corporate Importance	5	Dependence on the system to meet regulatory requirements or corporate priorities and objectives. Score 1-5 (1= low, 5= high)	25
Specific Concerns	4	Concerns and risk assessment of management and auditors. Review risk registers, specific areas raised by management, audit intelligence. score 1-5 (1= low, 5= high)	20
Total Possible Overall Score			80

Prioritisation Schedule

>50	High Priority	30-50	Medium Priority	< 30	Low Priority
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