

PETERBOROUGH CITY COUNCIL INTERNAL AUDIT STRATEGY AND PLAN 2014/15

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 comprehensive 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;
- Consultations with individual directors and their management teams
- Consultation with PwC, the council's external auditor
- Consultation with the Audit committee, at this meeting.

2.2 A number of themes have emerged in the preparation of the 2014 / 2015 Internal Audit Plan. These are:

- **Financial pressures** faced by the Council;
- **Contracts and Projects**. This is an essential component of the audit process, especially given the increasing dependence on external suppliers and partners, commissioning and different delivery vehicles in the provision of Council services;
- A continuation of Internal Audit work in **high-level corporate management functions**;
- **Information governance and data security**;
- **Schools**. Governance processes linked with the Schools Financial Value Standard (SFVS);
- **IT systems**. Changes to systems and the move towards more mobile/remote technology.
- **Grant Claims**. Increased requirement for Internal Audit to certify grant claims; and
- **Public Health**. Full integration into the Council from April 2013.

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). 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. However, we are not planning to recruit to the vacant post.

Post Name	FTE	
Chief Internal Auditor	0.40	Post shared with Cambridge City and South Cambs DC
Group Auditor	1.46	
Principal Auditor	0.60	
Senior Auditor	2.00	
Auditor	1.00	
Total establishment	5.46	

3.2 Shared Service Arrangement

- 3.2.1 A shared service arrangement with Cambridge City Council has been in operation since January 2011, and South Cambridgeshire District Council joined in July 2013. The aim is to share knowledge and best practice, and to increase flexibility and efficiency whilst driving down costs through economies of scale. The audit teams continue 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. We will look to increase efficiency by carrying out joint audits where possible and utilising expertise within teams across the whole shared service. This shared service model is due to continue and further opportunities will be appraised where appropriate. The savings generated go back to the corporate pot to assist in meeting future budget pressures.

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. Joint arrangements will be explored so that officers from all shared service partners can be developed at the same time and also to look for efficiencies in terms of time and cost.
 - Development of audit procedures to ensure that best practice is followed and the service is provided in the most cost efficient manner

- 3.3.2 A key development this year is the implementation of a new audit software system which aims to improve the reporting process, both in terms of individual audit reports and higher level reporting of audit performance and audit coverage. During the year, subject to funding, further modules may be developed that will assist in tracking and reporting upon the implementation of recommendations. The aim also is to introduce this audit software to our shared service partners to improve consistency of working methods.
- 3.3.3 We will continue to look for other partners to enhance the provision of audit. However, we are mindful that any changes will need to be carefully project managed so as to not dilute coverage at Peterborough (or its existing partners). Furthermore, this will also necessitate a re-structure of the service and fundamental change to the service agreement.

4 DETAILED PLAN

The Plan for 2014 / 2015 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.

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. A key theme this year will be around the financial risks facing the Council and we intend to provide assurance that our processes maximise income and robustly control expenditure. We will also cover other key areas, such as information governance and safeguarding. 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 time from the estimated 880 days available is as follows:

Table 1: Internal Audit Work Activities		
	Days:	%
Core Systems Assurance Work	100	11
Annual Governance and Assurance Framework	156	18
Strategic and Operational Risks	309	35
External Works	75	9
Grant Certification	75	8
Other Resource Provisions	165	19
TOTAL RESOURCES ALLOCATED	880	100.0

4.1 Core Systems Assurance Work

Audits of the main financial systems of the Council are undertaken on a cyclical basis. The audit plan for 2014 / 2015 includes reviews of budgetary control, the main accounting system, fixed asset accounting, Council Tax Reduction Scheme and accounts receivable. We will co-ordinate our work with our External Auditors to ensure that reliance can be placed on the work provided by Internal Audit.

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.

4.3 **Strategic and Operational Risks**

An increase in resource levels within the Internal Audit team has allowed us to allocate a significant proportion of our time to this important area of work. Audits have been included as a result of risks identified by management or Internal Audit, or following a particular management request and may be corporate or directorate specific. These areas have been identified in light of their increasing number, their importance in relation to the Council's overall aims and objectives and, at times, their complex linkages and funding arrangements. 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:

- Failure to realise the Growth Agenda (S106)
- Safeguarding (quality assurance regime)
- Financial Position (income maximisation within a variety of areas; expenditure control within projects, contracts and partnerships; value for money studies)
- Information Governance (data security within a variety of systems)
- Strategic Partnerships (Serco; Skanska)

4.4 **External Works**

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. Some further time has been built into the plan to appraise other income generating activities.

4.5 **Grant Claim Certification**

As a result of the organisation obtaining European and other funding, the demand for internal audit to certify grant claims has increased. The activities undertaken to date have proven to be resource intensive due to the need for a rigorous audit certification process, as well as data quality issues.

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 2014 / 2015

VISION FOR THE CITY

STRATEGIC PRIORITIES

- 1 Growth, regeneration and economic development to bring new investment and jobs. Supporting people into work and off benefits.
- 2 Improving educational attainment and skills for all children and young people, allowing them to seize the opportunities offered by new jobs and our university provision, thereby keeping their talent and skills in the city.
- 3 Safeguarding vulnerable children and adults.
- 4 The Environment Capital agenda including pursuing new income streams from solar energy and wind farm developments.
- 5 Supporting the city's culture trust Vivacity to continue to deliver arts and culture.
- 6 Keeping our communities safe, cohesive and healthy.

1.1.1 Draft Internal Audit Plan 2014 / 2015

SERVICE / SYSTEM	COUNCIL OBJECTIVE	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. The External Auditor also places reliance on the work undertaken by Internal Audit on core systems.				
Budgetary Control	ALL	A risk based review concentrating on budget management within one or more directorates.	High	Core audit assurance Corporate responsibility to protect finite resources
Main Accounting system	ALL	A cyclical review of key controls.	High	Core audit assurance
Fixed Asset Accounting	ALL	A cyclical review of key controls.	High	Core audit assurance
Council Tax Reduction Scheme	ALL	Joint audit focusing on the changes to council tax benefits.	High	Major changes to system
Accounts Receivable	ALL	A look at how departments recognise and bill for income due, to ensure processes maximise receipts.	High	Core audit assurance Corporate responsibility to protect finite resources
Oracle Financial IT system	ALL	A review of the control framework during the design and implementation of a new/upgraded IT system for the management of Accounts Payable, Accounts Receivable, Ordering and Receipting and the General Ledger.	High	Major changes to system
			TOTAL AUDIT DAYS	100

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, including the review of recommendations made by External Audit in their annual letter and verify implementation / progress.	High	Compliance with Accounts and Audit Regulations
Assurance Framework	ALL	Determine what assurance is received in relation to those risks identified in strategic and corporate risk registers. Identify gaps. Consider Internal Audit's role in filling those gaps and also in quality assuring other assurance providers.	High	Core audit assurance
Annual Audit Opinion	ALL	Internal Audit opinion on the state of governance 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 2015-2016 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 Effectiveness / 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
Anti Fraud Culture	ALL	Investigation of matches received from the National Fraud Initiative Liaison with the Corporate Compliance Team and update of Memorandum of understanding Evaluation of control weaknesses that have allowed a fraud to take place or remain undetected and provide recommendations to improve fraud prevention and detection Review impact of the move to DWP of fraud investigation role.	High	Corporate responsibility to protect finite resources
Partnership Governance	ALL	An overview of how we manage the relationships with, and performance of, our partners. For example Serco, Skanska, OP, Safer Peterborough	High	Corporate responsibility to protect finite resources

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority		
			Rating	Reason	
Information Governance	ALL	Liaison and strategic overview as part of the Strategic Governance Board and Information Governance Group	High	Core audit assurance	
Risk Management	ALL	Involvement in risk working group. Follow-up of 13-14 audit to ensure actions implemented.	Medium	Core audit assurance	
				TOTAL AUDIT DAYS	156

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				
Eligibility criteria	3	Review compliance with the new eligibility criteria within Adult Social Care	Medium	Corporate responsibility to protect finite resources
Frameworki – IT system	3	Review the operating model within the Adult social Care IT system	High	New system developed Management request
Public Health Delivery	5	Review integrity of data collection/reporting of PH indicators. OR. Review of contract management of service providers within Communities.	Medium	Risk of not meeting PH targets identified
Commissioning	ALL	Review new commissioning procedures, to include a look at whether all aspects of financial accountability have been appropriately incorporated into new directorates/roles.	High	Major change to structure to mitigate budget risks and improve effectiveness in this area.
Children's Services – Quality Assurance Regime	3	Ensure procedures are robust to enable reliance on the assurance.	Medium	A key control mitigating against several risks (safeguarding, capability, change management)
Children's Services – IT system	3	Review access arrangements to ensure appropriate data security and conflicts of interests are managed	Medium	Management request
Petty Cash	3	Follow-up of audit in 2013-4 relating to theft of Children's Services petty cash. Review of accountability (Serco/PCC)	Low	Management request
Children's Services – Leaving care allowances	3	Ensure robust procedures are in place and compliance with them.	Low	Management Request
Schools	1, 2	Review of financial and governance controls in five schools. Assurance required as part of the Schools Financial Value Standard (SFVS)	Medium	Ensure finite resources are appropriately managed Core audit assurance
Resources – Capital Project management	ALL	Review corporate processes designed to ensure effective decision making, monitoring, control and benefits realisation.	High	Project management risk identified.

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority		
			Rating	Reason	
Resources - RECAP	4	Review the project management of the expanding Material Recycling Facility. Possibility for a joint audit with our shared service partners.	Medium	Ensure finite resources are appropriately managed Major change	
Data Security - IT	ALL	Review the control of data security on mobile/remote technology and the proposed move to cloud based servers. Monitor the implementation of the replacement for GCSx (Public Service Network) and implications for more stringent BPSS	High Low	Information governance risk identified Major change	
Business Continuity	ALL	Review processes in place to protect against business interruption risks	Medium	Core audit assurance Risk identified in risk registers	
Procurement	ALL	Review corporate procurement process across PCC/Serco to ensure that an effective policy is in place and complied with.	High	Ensure finite resources are appropriately managed	
Contracts	ALL	A look at contract letting and managements for some specific contracts	Medium	Ensure finite resources are appropriately managed Core audit assurance	
Projects	ALL	Look at some specific projects, either across the life of a project, or concentrating on particular stages such as feasibility, delivery or post-implementation review	Medium	Ensure finite resources are appropriately managed Core audit assurance	
S106/POIS/CIL	1	Consider whether the processes in place are effective in maximising income	High	Identified in risk register.	
Value For Money	ALL	If time permits, a review of some identified activities to ensure they are being operated cost effectively. Areas for consideration include: phones, Pcards, usage of corporate contracts, business rate retention, New Homes Bonus.	Low	Ensure finite resources are appropriately managed	
				TOTAL AUDIT DAYS	309

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority		
			Rating	Reason	
EXTERNAL WORKS					
Work which generates an income for the Council					
Vivacity	5	Works agreed as part of an ongoing Service Level Agreement	High	Contractual requirement	
Other	-	Exploration of further income streams	Medium	Income Generation	
				TOTAL AUDIT DAYS	75

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority		
			Rating	Reason	
GRANT CLAIM CERTIFICATION					
Certification of claims in relation to funding requirements					
Various Grants	ALL	ZECOS (2 per year) CTIE (2 per year) Disabled Facilities Grant DFT (Local Plan Integrated Transport) DFT (Local Transport Plan Highways) GAF Troubled Families	High	To meet government and EU requirements	
				TOTAL AUDIT DAYS	75

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 2013-14 audits	30
Follow Up Provision	ALL	Revisiting audits after 6 months to monitor the implementation of recommendations	25
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.	80
Committee Support	-	Production of reports and attendance at Council committees and boards	30
TOTAL AUDIT DAYS			165

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