

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT STRATEGY AND PLAN 2015/16**

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;
- The Council's IT Strategy;
- 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 2015 / 2016 Internal Audit Plan. These are:

- **Financial pressures** faced by the Council and resultant restructuring programmes;
- **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, statutory and financial management processes linked with the Schools Financial Value Standard (SFVS);
- **IT and Digital Strategies.** Changes to systems and the move towards more mobile/remote technology.
- **Grant Claims.** Increased requirement for Internal Audit to certify grant claims; and
- **Legislation Changes.**

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 5.36 FTE (detailed below). This is a slight reduction to 2014/15 (0.1) as a result of a reduction in hours by one individual. The Plan has been compiled on the basis of 5.36 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	0.50	
Senior Auditor	2.00	
Auditor	1.00	
Total establishment	5.36	

3.1.2 During 2014/15 the Chief Internal Auditor was charged with management responsibility for both the Insurance and the Investigations Teams. Management time apportioned to each service area is now considered to be 20% Internal Audit with the remaining 20% covering the other two service areas (ie 1 day each per week).

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 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. Future aims are to increase efficiency by carrying out joint audits where commercially appropriate and utilising expertise within teams across the whole shared service where specialist knowledge exists. 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 The development of the audit software system implemented during 2014/15 will continue this year. This will focus on further enhancing processes to improve efficiencies within PCC and the extension of the system to our shared service partners through development support with the resultant improved alignment and consistency of working methods. During the year, subject to funding, further modules may be developed that will assist in tracking and reporting upon the implementation of recommendations.

3.3.3 We will continue to look for other partners to enhance the provision of audit. However, with the increased number of services being managed by the Chief Internal Auditor during 2014/15 the business model presently operated will require review and possible re-structure to ensure that management coverage within PCC and each organisation is appropriate

4 DETAILED PLAN

The Plan for 2015 / 2016 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 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. We will also cover other key areas, such as the introduction of the Better Care Fund/Care Act, customer experience and digital strategy, information governance and statutory requirements. 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 840 days available is as follows:

Table 1: Internal Audit Work Activities		
	Days:	%
Core Systems Assurance Work	60	7
Annual Governance and Assurance Framework	183	22
Strategic and Operational Risks	312	37
External Works	70	8
Grant Certification	50	6
Other Resource Provisions	165	20
TOTAL RESOURCES ALLOCATED	840	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 2015 / 2016 includes reviews of budgetary control, Payroll, fixed asset accounting, cash and banking and a review of the new HR system both pre and post implementation. 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. This area of work has been extended this year to include fraud activities such as the development of the Corporate Fraud Strategy and associated policies along with annual fraud reporting to the committee which was previously undertaken by the Compliance Team.

4.3 **Strategic and Operational Risks**

A significant proportion 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 particular management request. The nature of the reviews will also include areas of corporate coverage as well as some being 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 financial implications. 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:

- Better Care Fund and changes to the Care Act.
- 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)
- Themed reviews and increased coverage in schools with regards to statutory requirements and financial management.

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. The total number of days allocated for external activities is 70 days which is comparable with 2014/15.

4.5 **Grant Claim Certification**

As a result of the organisation continuing to receive and obtain grant funding, the demand for internal audit to certify grant claims continues. Whilst European projects are concluding some other funding has been secured requiring claim certification. The number of days allocated within 2015/16 has reduced slightly due to the changes but activities undertaken still form a reasonable proportion of the audit plan.

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 2015 / 2016

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.

Draft Internal Audit Plan 2015 / 2016

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
Payroll	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
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-serve processes.	High	Major changes to system
		A further post implementation review to test key controls in relation to starters, Leavers, exit processes and expense claims.	High	Core audit assurance Corporate responsibility to protect finite resources
Cash and Banking	ALL	A cyclical review of key controls	High	Core audit assurance
			TOTAL AUDIT DAYS	60

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 and joint working with the Investigations Team. Evaluation of control weaknesses that have allowed a fraud to take place or remain undetected and provide recommendations to improve fraud prevention and detection	High	Corporate responsibility to protect finite resources
Investigations Team Annual Report	ALL	Annual Report of investigation activities undertaken.	High	Corporate responsibility to protect finite resources
Corporate Fraud Strategy and Policy Development	ALL	Review and Development of new or existing policies to include: Anti-Fraud and Corruption Strategy, Fraud Response Plan, Prosecutions and Sanctions Policy, Whistleblowing Policy and the Bribery Act.	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	
		A review of information governance effectiveness and emerging issues from IG risk registers.	High	Core audit assurance / risk registers	
Risk Management	ALL	Involvement in risk working group and any emerging issues.	Medium	Core audit assurance	
				TOTAL AUDIT DAYS	183

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				
Connecting Families	6	A review of the Connecting Families Outcome Plan as part of the phase 2 of the programme.	Medium	Ensure finite resources are appropriately managed
Carbon Reduction	4,6	Review the arrangements for CRC reporting as a result of legislative changes and data validity.	Medium	Legislation changes Management request
Clare Lodge	1,2,3,6	A review of income arrangements to ensure that processes maximise receipts.	Medium	Management Request
Commissioning and Procurement	ALL	Review new commissioning procedures, to include a look at whether all aspects of financial accountability and procurement have been appropriately incorporated into the new people and communities directorate.	High	Major change to structure to mitigate budget risks and improve effectiveness in this area. Detailed on risk register
Better Care Fund	1,3,6	Review the governance and risk management arrangements for the introduction of the Better Care Fund pooled budgets.	Medium	Major change to governance arrangements.
Care Act Compliance	3,6	Review of policy arrangements to ensure they are Care Act compliant and reflect working arrangements.	Medium	Management request Detailed on risk register
Regulatory Services	1,3,6	A review of governance and process arrangements within Regulatory Services following reorganisation to include consideration for outcomes such as the customer experience.	Medium	Change to service delivery Management request
Coroners Office	3	Review of support services processes as a result of proposed centralisation of coroners services to also include a general review of allowances.	Medium	Change to service delivery. Management Request
Schools	1, 2	Review of financial and governance controls in six schools. Assurance required as part of the Schools Financial Value Standard (SFVS)	Medium	Ensure finite resources are appropriately managed Core audit assurance
Schools - Health and Safety Statutory Testing	3,6	A themed review across school establishments to ensure robust processes are in place to ensure that statutory requirements are met.	High	Ensure statutory requirements are effectively discharged. Management request

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
Schools – Gifts and Hospitality	1,2	Review the effectiveness and implementation of the recently introduced schools gifts and hospitality policy. A themed review across school establishments.	Medium	Management request
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
Data Security - IT	ALL	Review the control of data security on mobile/remote technology and the proposed move to cloud based servers.	High	Information governance risk identified
IT Strategy	ALL	A review of selected projects which support and form part of the overall IT Digital Strategy.	High	Major organisational change
Pensions	ALL	A review to ensure that tier bandings have been applied appropriately following pension changes in April 2014.	Low	Core audit assurance and legislative changes Management request
Strategic Housing	ALL	A review of governance and process arrangements within Strategic Housing to include consideration for outcomes such as the customer experience.	Medium	Management request
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 governance, feasibility, delivery or post-implementation review	Medium	Ensure finite resources are appropriately managed Core audit assurance
Value For Money	ALL	A VFM step is to be included within review processes to identify any areas where efficiencies can be achieved to be consolidated into an annual report if appropriate. And if time permits, a review of some identified activities to ensure they are being operated cost effectively. Areas for consideration include: Pcards, usage of corporate contracts, business rate retention.	Low	Ensure finite resources are appropriately managed
			TOTAL AUDIT DAYS	312

SERVICE / SYSTEM	COUNCIL OBJECTIVE	AUDIT SCOPE	Priority	
			Rating	Reason
GRANT CLAIM CERTIFICATION				
Certification of claims in relation to funding requirements				
Growth and Regeneration	ALL	Bus Service Operators 2013/14 - A grant to support bus services, including community transport services.	High	To meet government and EU requirements
Growth and Regeneration	ALL	Local Transport Funding Grant 2013/14 - 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	To meet government and EU requirements
Growth and Regeneration	ALL	Local Transport Funding - Additional Highways Grant - A grant to support local authorities in funding capital costs for integrated transport measures and highway maintenance schemes.	High	To meet government and EU requirements
Growth and Regeneration	ALL	Pinch Point Grant 2013/14 - A fund to help local authorities keep traffic moving and remove bottlenecks on the local highways network.	High	To meet government and EU requirements
Growth and Regeneration	ALL	Severe Weather Grant 2013/14 - A scheme to support local authorities with costs in dealing with recovery from flood damage in December 2013 and severe weather between December 2013 and up to 7th February 2014.	High	To meet government and EU requirements
Growth and Regeneration	ALL	Local Sustainable Transport Grant – A scheme to help local authorities to cut carbon emissions and create local growth.	High	To meet government and EU requirements
Growth and Regeneration	ALL	Heritage Woodland in Action – A grant to support the restoration of ancient urban woodland.	High	To meet government and EU requirements
People and Communities	ALL	Disabled Facilities Grant - Non ring-fenced capital funding towards Disabled Facilities grants that PCC can award to disabled clients for necessary housing alterations.	High	To meet government and EU requirements
People and Communities	ALL	Troubled Families - Results based funding to support families meeting certain criteria.	High	To meet government and EU requirements
			TOTAL AUDIT DAYS	50

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