

<b>PETERBOROUGH CITY COUNCIL INTERNAL AUDIT STRATEGY 2018/19</b>
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**1 INTRODUCTION**

- 1.1 Internal Audit has a key role in supporting the Council and its Audit Committee in discharging its governance responsibilities. Its aim is to provide independent risk based and objective assurance which is responsive to the needs of Councillors and management, ensuring assurance, advice and insight enhances the values and vision of Peterborough City Council.
- 1.2 In accordance with the mandatory Public Sector Internal Audit Standards (PSIAS), the Chief Internal Auditor must “establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals”. The role, purpose and authority of Internal Audit is defined in our Charter, which is updated annually.
- 1.3 This document demonstrates how Internal Audit will support the Council in by delivering a relevant and focused Internal Audit Annual Plan for 2018/19. It explains how the plan was developed, the resources required to fulfil it, and how we will continue to develop the audit service.
- 1.4 The strategy 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.

**2 INTERNAL AUDIT PLANNING PROCESS**

- 2.1 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 innovative approach was agreed with the Audit Committee in February 2018 and has the advantage that each selected piece of work is the right one.
- 2.2 At the same Audit Committee, we also discussed some emerging themes. These were generated from our review of: departmental and strategic risk registers; discussions with senior management; the Council’s priorities; the Medium Term Financial Strategy; key decisions and reports taken to Cabinet, Scrutiny Committee and other committees; and contract and project registers. The themes considered were:
- **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.

- **Safeguarding.** New approach to family safeguarding and improvements to processes.
- **Corporate governance,** including risk management, the new Code of Corporate Governance and culture and ethics.
- **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 new regulations, IT security and data quality;
- **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 requirement for independent verification and certification.

2.3 The resulting list of ideas was then subject to an assessment, using our planning tool. Each idea was scored under each of the factors below to generate a total score and thus a priority of High (>50), Medium (30-49) or Low (<30).

Factor	Description	Weighting	Maximum Score
Materiality	The size of a system or process in terms of financial value or number of transactions or number of people affected.	1	5
Corporate Importance	The extent to which the Council depends on the system to meet statutory or regulatory requirements or corporate priorities.	5	25
Stability	The degree of change within the process.	2	10
Vulnerability	Extent to which the system is liable to breakdown, loss, error or fraud.	4	20
Specific concerns	Arising from management's assessment of risk as well as audit intelligence.	4	20
<b>TOTAL POSSIBLE SCORE</b>			<b>80</b>

2.4 The Annual Audit Plan was then 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, planning and progress reporting and follow-up reviews.

- 2.5 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. In particular, we will review our plan after the imminent update of strategic and departmental risk registers. This new aspect of our planning methodology means that we cannot state with certainty which audits will be undertaken, however we will be able to ensure that each next piece of work is the highest priority one. Changes to the plan will be notified to the S151 officer and Audit Committee.
- 2.6 We will also start to develop 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.

### 3 AUDIT RESOURCES

- 3.1 The Internal Audit Service is provided by an in-house team with an establishment of 5.96 FTE (as detailed below). This is a slight increase from 2017/18 of 0.5 FTE, resulting from the termination of the shared service arrangement (in December 2017) with Cambridge City and South Cambridgeshire District Councils (0.3) and the increase of a Senior Auditor post from 0.8 to 1 FTE.

Post Name	FTE
Chief Internal Auditor	1.00
Group Auditor	1.46
Principal Auditor	0.50
Senior Auditor	2.00
Auditor	1.00
Total establishment	5.96

- 3.2 The Chief Internal Auditor is charged with management responsibility for both the Insurance and the Investigations Teams at Peterborough City Council, as well as undertaking any Stage 2 Corporate Complaints. Management of these activities equates to just over 0.4 FTE.

- 3.3 We currently have a Senior Auditor vacancy (1 FTE). Should we not recruit, the impact on the plan as it currently stands is highlighted within Appendix C. The new planning methodology means it is not possible to say at the outset how our resources will be allocated, however, it can be seen that there are currently a number of audits rated High and Medium that we would not be able to complete.
- 3.4 We are aware of one area within the current plan that raises a conflicts of interest that could impair the objectivity of any work carried out. The Chief Internal Auditor acts as an approving officer for BACS payments (to provide cover when other key staff are not available) and this will impair objectivity in relation to the Treasury Audit. Our Charter states that such audits will be reviewed independently from the CIA, and the Group Auditors will report directly to the Service Director Financial Services. However, this too may present a conflict of interests. We will determine the most appropriate course of action before undertaking this piece of work. We will also continue to monitor any conflicts of interest on a case by case basis and either re-allocate work accordingly, or notify the S151 officer and Audit Committee should we not be able to accommodate a piece of work.

#### **4 QUALITY ASSURANCE AND IMPROVEMENT**

- 4.1 The Internal Audit team will operate to the mandatory professional standards outlined in the Public Sector Internal Audit Standards (PSIAS). We will continue to monitor and improve the quality of our work in the following ways:
- Robust, evidenced quality reviews of each piece of audit work by senior management.
  - Ongoing supervision and mentoring of staff, though 1:1s.
  - Assessment of the training needs of staff and provision through our membership of the Cambridge Audit Group and the Better Governance Forum, as well as other training providers. We will also make use of webinars, mentoring and sharing of information at team meetings.
  - Use of post-audit questionnaires to obtain the views of auditees.
  - Annual customer surveys to understand the requirements of management and their views on the quality of our service.
  - Producing and implementing an improvement plan based on any self or externally assessed reviews of our work.

#### **5 AUDIT SERVICE DEVELOPMENT**

- 5.1 We aim to continually review and improve our service to ensure it is of the highest quality and meets our aims, as set out in the Charter. Planned developments for 2018/19 include:
- Refinement of the new planning methodology, to include a review of the scoring mechanism and the possibility for automation.
  - An update of our follow-up process, to improve efficiency and ensure all actions are tracked and easily reportable.
  - A review of our post-audit questionnaire, with the aim of increasing its return rate.
  - A review of our reporting protocols (who receives audit reports).

- Ongoing upgrades of our audit software, to ensure we are making full use of best practice enhancements, including a review of time recording functionality.

## 4 OVERVIEW OF PLAN

The Plan for 2018/19 aims to give the Council the best audit coverage within the resources currently available, in order to provide an Annual Audit Opinion to feed into the Annual Governance Statement. Assurances from other providers will be utilised where appropriate. We will also collaborate with our Internal Audit colleagues in other local authorities with whom Peterborough City Council shares services. The current allocation of the estimated 760 available days (without recruitment) is shown in Table 1 below. Further details of specific audit reviews can be found in Appendix D.

<b>Table 1: Internal Audit Work Activities</b>		
	<b>Days:</b>	<b>%</b>
Financial Governance	48	6
Corporate Governance	60	8
Information Governance	57	7
Anti-Fraud Culture	60	8
Service Delivery Risks	78	11
Procurement and Contracts	60	8
Programmes and Projects	50	7
Certification	80	10
Other Resource Provisions	115	15
External Works	152	20
<b>TOTAL RESOURCES ALLOCATED</b>	<b>760</b>	<b>100.0</b>

### 4.1 Financial Governance

This covers audits of the main financial systems of the Council, which for 2018/19 includes a review of budgetary control and savings targets. It also covers an allocation for the work we do in schools and a review of the Pupil Referral Unit. We will co-ordinate our work with our External Auditors to ensure that there is no duplication of effort and to obtain any assurance from the work that they do.

## **4.2 Corporate Governance**

The work outlined in this section provides a high level overview of the governance arrangements at the Council, including the operation of the new board structure, compliance with the Code of Corporate Governance and input to the Annual Governance Statement. We will also continue to be involved in the new Risk Management board.

## **4.3 Information Governance**

In this area we are planning to review Business Continuity and Disaster Recover plans, the new IT Strategy and its links with agile working and controls over IT security. We will also continue to attend the Information Governance working group, providing consultancy advice on the policy framework and emerging issues.

## **4.4 Anti-fraud Culture**

The Chief Internal Auditor manages an Investigations Team, and reports to Audit Committee separately about their work. However, in delivering all of its work, internal auditors are alert to the risks and exposures that could allow fraud or corruption to occur. Our plan also includes time for pro-active fraud detection (including work in relation to the National Fraud Initiative and detailed testing of some high fraud risk areas); consultancy work in raising awareness and promoting an anti-fraud culture, and a small contingency for investigations into suspected irregularities. We will work with the Investigations Team where appropriate.

## **4.5 Service Delivery Risks**

We have included a number of reviews in this area around safeguarding risks, statutory testing in schools and the new joint venture with Cross Keys which aims to deliver housing to help to alleviate the problem of homelessness in Peterborough. Our work will also include the production of an assurance map covering safeguarding processes and controls, and we will review the assurances obtained from the CQC, Ofsted and any other external assurance providers.

## **4.6 Procurement and Contracts**

We assess the management of contracts as high priority at a strategic level and always include time in our plan, however, specific contracts are assessed as the need arises. Our review of risk registers and discussions with management have identified the following: Permanency (TACT), Prevention and Enforcement (Kingdom), Information Technology (Serco) and the arrangements for replacing the contract with Amey.

#### **4.7 Programmes and Projects**

We assess the management of projects as high priority at a strategic level and always include time in our plan, however, specific projects are assessed as the need arises. We will review projects to ensure appropriate business cases have been made and that they are being managed effectively. This may also include a look at business benefits realisations, as the large transformation projects are key to the delivery of efficiencies and therefore necessary savings. We also plan to produce an assurance map covering the high level programme and project management framework.

#### **4.8 Grant Certification**

As a result of the Council 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 requirements, such as the Troubled Families programme (known locally as Connecting Families) and the Carbon Reduction Commitment.

#### **4.9 Other Resource Provisions**

This area includes time for:

- Completing 2017-18 audits that have yet to be finalised at the beginning of 2018-19
- Following-up the implementation of audit recommendations, normally within 6 months of the original audit;
- The provision of control advice and consultancy, which is requested on an ad-hoc basis from a variety of managers and officer. A large amount of this work consists of advice during the update or implementation of new systems or processes.
- Annual audit planning, progress monitoring and reporting.
- Other committee support, including reporting, Audit Committee training and a review of Audit Committee effectiveness
- Review and update of the Internal Audit Charter and Ethics statement and review of Internal Audit effectiveness

#### **4.10 External Works**

PCC Internal Audit provides audit services to Vivacity–Peterborough (since 2010) and the new Combined Authority (from May 2017). Both are managed through a Service Level Agreements and costs are chargeable. The work undertaken is client confidential and is reported to the organisations' own audit committees. A small amount of chargeable work is occasionally carried out for schools, specifically grant certifications.

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