

AUDIT COMMITTEE	AGENDA ITEM No. 4
27 JANUARY 2020	PUBLIC REPORT

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

INTERNAL AUDIT PLAN 2020/2021: APPROACH AND EMERGING THEMES
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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> <p>1. Note and comment upon the emerging themes to be considered for inclusion in the 2020 / 2021 Internal Audit Plan</p>	

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine planned report on the development of the 2020 / 2021 Internal Audit plans.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide Members with details of current and emerging issues which are seen as potential risks to the delivery of quality services to the Council. It provides an opportunity for Members to consider these themes and provide input into the development of 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. To ensure a flexible and prioritised approach to our work, we utilise an assessment and planning tool which is used throughout the year on a rolling basis. This helps to ensure that each ‘next’ piece of work is the highest priority one, according to our assessment of risk.

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 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, our assessment tool is applied to any new risks that emerge or concerns that are raised. This will 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 also aim to develop an assurance framework as part of this and ongoing 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

- € Financial resilience – arrangements for ensuring that savings proposals are robust and targets are achieved;
- € Fair Tax Mark – compliance with the scheme;
- € Brexit arrangements, including impact on procurement activities, regulatory framework, service demand and EU funding;
- € Financial Systems, particularly where changes are proposed.

4.3.3 Information Governance

- € Cyber security activities carried out by Serco and also the process of dealing with a cyber incident;
- € The operation of new or upgraded IT systems such as the Mosaic finance module and Human Resources self-service technology;
- € Data Quality – how we ensure data is accurate, up to date, meets data protection requirements and enables PCC to maximise its use in decision making. This will tie in with the National Fraud Initiative refresh in October 2020;
- € The project to integrate the ICT estate with CCC and to share IT systems.

4.3.4 Corporate Governance

- € Risk management, following the removal of a centralised co-ordination role;
- € Anti-fraud and corruption including the NFI Initiative 2020;
- € High level review of compliance with our Code of Corporate Governance to feed into our annual opinion report, including a look at policies such as Financial and Contract Regulations.

Other Service Delivery Arrangements

- Medesham Homes Joint Venture;
- Shared Service models - new arrangements for back office teams which may be different to the current models for customer facing teams.
- Aragon Wholly Owned company – this is dependent on the amendment to the company's Articles to allow Internal Audit access to review governance arrangements.

4.3.5 Contracts and Procurement

- Financial and operational performance of contracts. A significant number of specific contracts have been put forward by management for consideration and we will review, and risk assess, our register of contracts. Examples include the schools Public Finance Initiative; Aragon; S75 agreements; Serco; Integrated Community Equipment Service; Norfolk Property Service; The Adolescent and Children's Trust; Transport;
- Off-contract and spot/block purchasing.

4.3.6 Project and Programme Management

- An overview of corporate arrangements, following the removal of a centralised co-ordination role;
- Think Communities, focussing on partnership working, shared decision making and data sharing;
- Syrian Refugee Resettlement programme;
- Climate Change Action Plan;
- Northminster Car-park – ongoing oversight;
- Peterborough Integrated Energy Infrastructure – processes in place to ensure criteria met to enable grant to be claimed.

4.3.6 People Management

- Arrangements for DBS checks of staff;
- HR policies – tackling mental health at work;
- Upskilling of managers, following re-shaping of HR and Finance functions.
- Arrangements for managing sickness absence, annual and other leave, and expenses.

4.3.7 Service Delivery

- Schools – the DfE are proposing to re-introduce a cyclical 3-year audit programme for maintained schools. This will mean a significant increase in time spent on this area of work;
- Management of temporary accommodation;
- Event Management and Public Safety;
- Domestic Abuse Service;
- Parking Services;
- Business Improvement District – arrangements for collection of additional levy and also for payment of claims against the fund.

4.4 Other Activities

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

- € Grant certification/independent examination, as required by Central Government and the Charities Commission;
- € Cambridgeshire and Peterborough Combined Authority; and
- € Vivacity

4.5 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 Directors and Heads of Service have been invited to input into the planning process to date. Consideration of any information received has been incorporated into this report where applicable and further consultation is in train with Directors and their Management Teams.

The Audit Committee is similarly invited to input into the annual planning process by way of this report. Any comments will be incorporated and assessed for inclusion within the plan in accordance with the planning tool (see Appendix A).

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 require that the current structure remains essentially intact throughout the year. Resource requirements are reviewed each year during the planning process, however there is an additional review currently underway as part of the Budget 2020 process. This includes investigation of a shared service arrangement with CCC, as well as the possibility of reducing staff numbers.

It should also be noted that a similar planning process is underway with the organisations for which we provide a service, and for which we derive an income. The results of that will have implications for the resources available to Peterborough City Council.

Any changes to the structure and resourcing of Internal Audit will result in a further review of our programme of work, and this will be reported to the Audit Committee.

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.

11. APPENDICES

- 11.1 Appendix A

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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