AUDIT COMMITTEE	AGENDA ITEM No. 5
25 JANUARY 2021	PUBLIC REPORT

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

INTERNAL AUDIT PLAN 2021 / 2022: APPROACH AND EMERGING THEMES

RECOMMENDATIONS	
FROM: Steve Crabtree, Chief Internal Auditor	**Deadline date:** N/A

It is recommended that Audit Committee:

1. Note and comment upon the emerging themes to be considered for inclusion in the 2021 / 2022 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 the 2021 / 2022 Internal Audit plans.

2.   PURPOSE AND REASON FOR REPORT

2.1   The purpose of this report is 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

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 develop a risk-based plan to determine the priorities of the internal audit activity. It must also explain how the planned assurance delivery links to the organisational objectives and priorities. 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, of which 2020 has demonstrated, it is important that audit plans can adapt quickly to the needs of the organisation. 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 at the point of each piece of work commencing is considered to be the next highest priority one according to our risk assessment.

4.2   APPROACH

4.2.1   Consultation and 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 and strategies, decisions, project and contract registers.

4.2.2   The potential areas for review 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.
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4.2.3   The Annual Internal Audit Plan will be complied 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 audit providers.
- An allowance for statutory activities, ad hoc consultancy, supporting the democratic process and follow-up reviews.

4.2.4   During the year, any new emerging risks or concerns identified are reviewed using the assessment tool. This determines the priority for new pieces of work to those already included in the plan. This can result in the lowest priority areas being dropped from the plan. Co-ordination between Internal Audit and the Risk Management Board/risk functions can assist this process in identifying emerging local and national risks and areas that need to be covered in audit work where appropriate.

4.2.5   Internal audit aims to develop an assurance framework as part of this and ongoing future year's plans. This framework maps the controls in key areas to the sources if 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 Audit 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;
- Brexit arrangements, including impact on procurement activities, regulatory framework, service demand and EU funding;
- Financial Systems, where changes have occurred, data mining may be explored or risk has increased due to the impact of COVID (i.e. council tax, accounts payable)
- COVID related grants – continued internal audit activity in relation to eligibility processes and reporting to MHCLG.

4.3.3   Information Governance
- The operation of new or upgraded IT systems such as Power BI, the organisations new project management system;
- Cyber security issues carried out by PCC IT services;
- Shared Services to include financial controls.

4.3.4   Corporate Governance
- Risk Management and the assurance obtained from the Risk Management Board;
- Anti-fraud and corruption to include the resultant dataset matching activities from the NFI Initiative 2020;
- Business Continuity;
- Compliance with our Code of Corporate Governance.

Other Service Delivery Arrangements
- Aragon wholly owned company – client management arrangements such as refuse and recycling
- City College - a review of arm's length governance arrangements and the incoming services previously provided by Vivacity;
- Housing Revenue Account – governance arrangements

4.3.5   Contracts and Procurement
- Financial and operational performance of contracts. Consultation is ongoing with management for consideration and we will review and risk assess our register of contracts. Examples could include Skanska, Integrated Community Equipment Store, Serco.

4.3.6   Project and Programme Management
- An overview of corporate arrangements as a result of new systems and project management processes (see Power BI);
- Joint IT Service Management Systems e.g. Mobile refresh programme
- Further development of the HR management system to include the expenses module;
- Climate Change Action Plan;
- Reviews of risk assessed projects – to be determined.

4.3.7   People Management
- Upskilling of managers, following re-shaping of HR and Finance functions;
- Impact on recruitment processes due to Brexit;
- Arrangements for managing agile working;

4.3.8   Service Delivery
- Direct payments;
- Covid-19 – any further changes to service delivery resulting from the pandemic;
- Parking Services;
- Coroners Service;

4.4   Other Activities
Internal Audit also provides support for other activities of the council as well as developing commercial services to other organisations. These include:

- Grant certification/independent examination, as required by Central Government, the Charities Commission and the Cambridgeshire and Peterborough Combined Authority;
- Development of commercial activities with PCC organisations such as Aragon and Peterborough City College (Vivacity);
- Other internal audit commercial opportunities with neighbouring authorities.

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. Currently it is unknown if there will be any implications on staff numbers as a result of the 2021 budget process or as a result of alternative service delivery arrangements such as a shared service with CCC.

It should be noted that initial discussions are taking place to discuss the feasibility of providing audit management services to another local authority where income will be derived. Similarly the Chief Internal Auditor is in discussion with Aragon and Peterborough City College with a view to providing internal audit services for those activities previously provided by Vivacity.

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 Councils 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

Category	Weight	Description	Total Possible Category Score
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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