

Agenda Item No: 9

DRAFT 2016/17 INTERNAL AUDIT PLAN

To: Audit and Accounts Committee (AAC)
Date: 15th March 2016
From: Head of Internal Audit and Risk Management
Electoral Division(s): All
Forward Plan Ref: N/A
Key decision: No
Purpose: To present the draft 2016/17 Internal Audit Plan and invite comments from AAC.
Key Issues: N/A
Recommendation: The Audit and Accounts Committee is asked:

a) to comment on the draft 2016/17 Audit Plan as set out in Appendix 1.

<i>Officer contact:</i>	
Name:	Neil Hunter
Post:	LGSS Head of Internal Audit
Email:	neil.hunter@cambridgeshire.gov.uk
Tel:	01223 715317

1. THE INTERNAL AUDIT PLAN

1.1 BACKGROUND

Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) in April 2013. The PSIAS set out the standard for internal audit across the public sector.

The principles in the PSIAS are consistent with the previous CIPFA code of practice for internal audit which applied across local government. They include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the 'Board'; for the purposes of the key duties laid out in the PSIAS, the Audit & Accounts Committee is effectively the 'Board' for the Council.

Under the Local Government Act, the Council's Section 151 officer is responsible for ensuring that there are arrangements in place for the proper administration of the Authority's financial affairs. The work of Internal Audit is therefore directly relevant to these responsibilities.

1.2 AUDIT PLANNING

PSIAS Performance Standard 2010 – *Planning* states that:

"The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."

The standards refer to the need for the risk-based plan to consider the organisation's risk management framework, and to take into account the requirement to produce an annual internal audit opinion and the assurance framework.

Within the Council, the Chief Audit Executive is the Head of Internal Audit, for the purposes of the PSIAS. Performance Standard 2450 – *Overall Opinions* states that:

"The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."

The risk-based plan therefore needs to include an appropriate and comprehensive range of work which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by the Audit & Accounts Committee.

The Head of Internal Audit will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan.

1.3 THE PLANNING PROCESS

The plan is based on assurance blocks that each provides an opinion over key elements of the control environment, targeted towards in-year risks, rather than a more traditional cyclical approach examining each system over a number of years. For each assurance block, the most appropriate level of coverage necessary to provide an effective annual assurance opinion and added value to the organisation has been developed.

The audit plan is intended to remain dynamic in nature and will be reviewed and re-aligned on a regular basis to take account of new, emerging and changing risks and priorities. Resources will then be re-prioritised towards the areas of highest risk. The audit plan will be reported to Audit & Accounts Committee every quarter, and should be reviewed and robustly challenged by the Senior Management Team, the S151 Officer and the Audit & Accounts Committee.

In order to develop the audit plan, there must be a sound understanding of the risks facing the Council. The Internal Audit risk assessment of the authority is updated during the year and used to form the basis of the Internal Audit plan, alongside the Corporate Risk Register. Internal Audit has also engaged with members of senior management to ensure that known and emerging risks are considered in annual audit planning.

1.4 THE ANNUAL PLAN

The Internal Audit Plan for the next year must be sufficiently flexible to enable assurance to be obtained over current risk areas, as well as emerging risks, and those risks which are yet to be identified. This is particularly relevant as we move into 2016/17, with the Council continuing to evolve in the face of ongoing financial challenges.

Inevitably, the potential for risks is increased during periods of change. For instance, reductions or high levels of turnover in the workforce provide an opportunity for controls to break down – as well as an opportunity to consider new and more efficient ways of organising people, systems and processes, without adversely impacting internal control. To reflect this risk, the Audit Plan contains an allocation of time for advice and guidance. Reviews of the key financial systems and pro-active anti-fraud and compliance audits will provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error.

The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus

on, for example, better assurance, safeguarding and *making every penny count*. The planned audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation.

Maintaining an Audit Plan which is dynamic, challenging and prioritised based on the organisation's risks is not a new concept; however, in the current environment it is ever more critical if Internal Audit is to help the Council to respond effectively to the scale of change required in 2016/17 and beyond.

1.5 HOW ASSURANCE CAN BE GIVEN

As detailed above, the plan is split into both assurance blocks and directorate areas for ease of understanding as well as to demonstrate how assurance on the organisation's control environment can be given. There are a number of key audit themes:

1.5.1 Key Financial Systems

This is the traditional area of internal audit work, required by external audit, and very much focuses on providing the Section 151 officer assurance that "the Council has made arrangements for the proper administration of its financial affairs." These systems are agreed in advance with External Audit and are used as the basis by which External Audit area able to place reliance on Internal Audit work. These are generally the systems that have the highest financial risk. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.

1.5.2 Policies & Procedures

Effective policies and procedures drive the culture and risk appetite of the organisation and ensure key control principles are captured. A number of policies and procedures will be reviewed to ensure these are: up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved. Each audit undertaken should similarly review the current policies and procedures in the area being covered.

1.5.3 Compliance

Compliance work is fundamental as it provides assurance across all Directorates and therefore supports the Head of Internal Audit opinion on the control environment. The proposed coverage for compliance is underpinned by an assessment of the Council's framework of controls (informed by policies and procedures) and includes those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly. The work involves compliance checks across the organisation to provide assurance on whether the critical controls within the key policies and procedures are being routinely complied with in practice. This work will continue to

challenge the existing controls to ensure that they are modern, effective and proportionate.

1.5.4 Making Every Penny Count

This assurance block incorporates the on-going work on initiatives to promote the value of *making every penny count* across the organisation. Although each audit we undertake should have value for money at its core, the team will be suggesting areas where this work can be expanded.

1.5.5 Commissioning and Contracts

Within this assurance block, a number of days have been included for capital and current contract reviews. The first stage will be to agree the higher risk contracts for review and will incorporate open-book assurance where required to ensure that these are operating in accordance with the terms of the contracts. Work to examine the commissioning process as a whole is also included in this assurance block.

1.5.6 Anti-Fraud and Corruption

This is a key development area and a high-risk area across the public sector. This includes both reactive and pro-active elements, along with initiatives to raise awareness of the council's anti-fraud and corruption culture and to report on the arrangements in place. In addition to the time allocation for fraud investigation work including the risk assessment process for referrals, the assurance block includes an allocation of days for pro-active fraud strategy work.

1.5.7 ICT and Information Governance

The ICT assurance block includes reviews of key ICT risk areas – major ICT failure and ICT strategy. It also includes an allocation of time for the review of general computer controls to provide assurance that systems are correctly processing information accurately and on a timely basis. The assurance block also incorporates time for reviews of key risk areas around information governance and information security.

1.5.8 Contingency

The Audit Plan also includes a contingency provision to be utilised in-year, in response to unforeseen work demands and emerging risks.

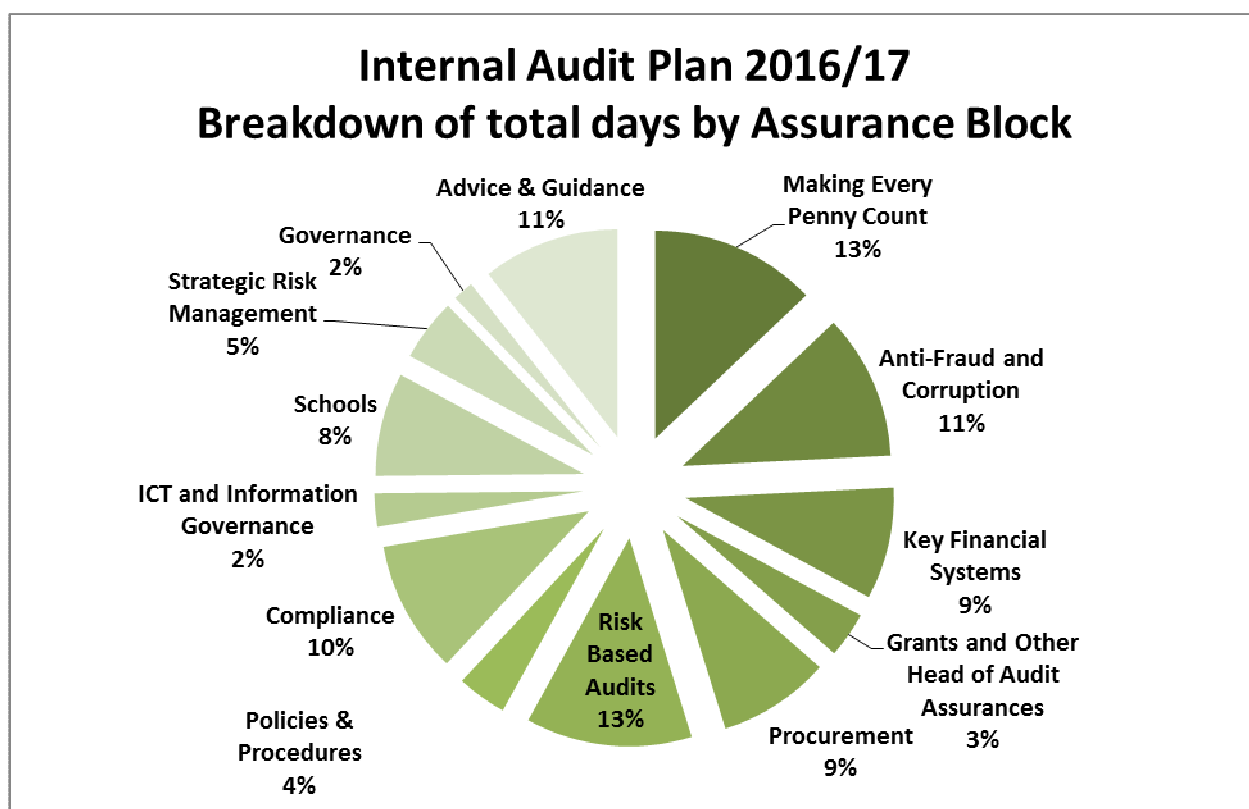
1.6 PLAN SUMMARY AND RESOURCES

In summary, the Audit Plan maintains a focus on risk-based and compliance audits as well as providing assurance on key financial systems. This reflects the need to focus on

the management of emerging risks and to ensure the continued operation of key controls within the Council's governance arrangements, systems and processes. In order to contribute to the Council's efficiency agenda, there is also a continued need to allocate time to anti-fraud work and value for money reviews.

The Audit Plan has been agreed as 1,550 days. This compares to 1819 days for 2015/16; the impact of this reduction will be minimised through ongoing risk assessment work to ensure that resources are targeted to the highest-priority areas.

The proposed approximate split of time across the 2016/17 Audit Plan is as follows:



1.7 CONCLUSION

The 2016/17 Audit Plan has used a risk-based approach to prioritising internal audit work and includes sufficient coverage to ensure an evidence-based assurance opinion on the control environment can be provided at the end of the year.

The Plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on key risks facing the organisation throughout the year.

Progress against the plan will be monitored throughout the year and key issues reported to SMT and the Audit Committee each quarter.

1.8 THE DRAFT INTERNAL AUDIT PLAN 2016/17

The summary draft Audit Plan for 2016/17 is presented below, outlining the allocation of days across the various assurance blocks:

Assurance Block	2016/17 Plan	
	Days	% of total assurance days
Making Every Penny Count	200	13%
Anti-Fraud and Corruption	175	11%
Key Financial Systems	135	9%
Grants and Other Head of Audit Assurances	55	4%
Procurement	135	9%
Risk Based Audits	200	13%
Policies & Procedures	60	4%
Compliance	160	10%
ICT and Information Governance	40	3%
Schools	125	8%
Strategic Risk Management	75	5%
Governance	25	2%
Advice & Guidance	165	11%
Total Assurance Days	1550	100%

The detailed breakdown of the draft Plan is attached as Appendix 1.

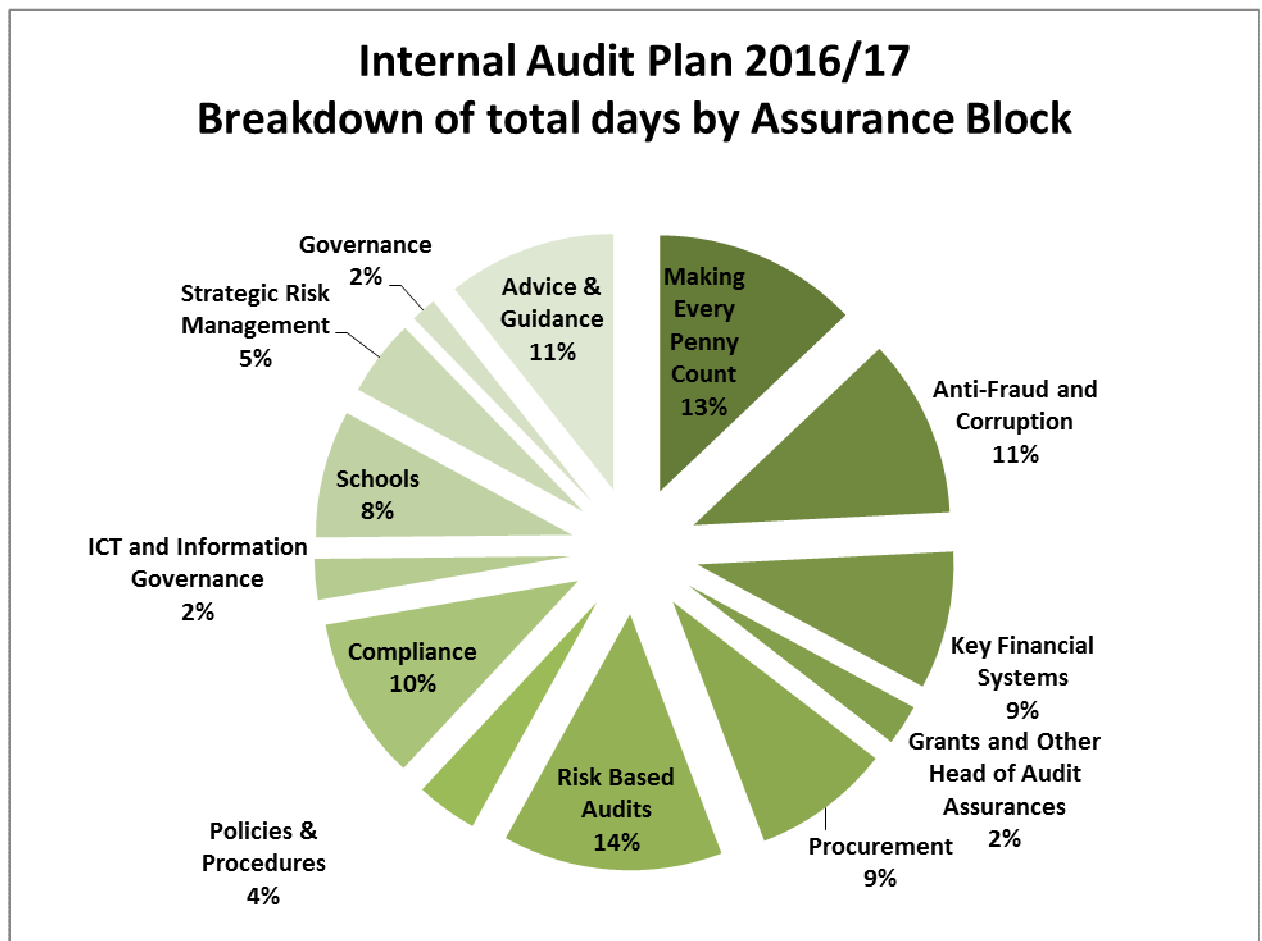
Background Documents: None

APPENDIX 1 – DRAFT INTERNAL AUDIT PLAN 2016/17

1.1 PLAN SUMMARY – UPDATE FOLLOWING SMT ON 14th MARCH

Following the meeting of SMT on the 14th March, a minor amendment has been made to the draft Internal Audit Plan which reduces the number of days allocated to Grants and Other Head of Audit Assurances by 15, and increases the number of days allocated to Risk Based Audits by 15. This is in respect of a reduction in the number of days allocated to review of the Public Health Grant, as this will be the third year that this review will take place, and it is believed that issues identified as part of previous reviews have now been addressed. These days have instead been allocated to a review of arrangements for the new Public Health Joint Intelligence Unit.

The total number of days in the Audit Plan remains as agreed at 1,550 days. The proposed approximate split of time across the 2016/17 Audit Plan is now as follows:



The detailed breakdown of the 2016/17 Audit Plan is set out below.

Draft Internal Audit Plan 2016/17				
Audit	16/17 Days	Assurance Block	Directorate	Why?
Making Every Penny Count (Reviews)				
Making Every Penny Count - Strategy	20	Making Every Penny Count	Cross-Cutting	Review focusing on: how officers are encouraged to drive for best value; and how this agenda is set and communicated at a strategic level.
Client Contributions	20	Making Every Penny Count	CFA	Review with a focus on: accurate budgeting and forecasting of client contributions due; ensuring that all contributions due are collected; arrangements for non-payment of contributions; deferred payments arrangements.
Agency Staff Framework & Strategy	20	Making Every Penny Count	Cross-Cutting	Review of the framework and strategy for the use of agency staff at the Council, with a focus on: policies and procedures in place; current contract terms and conditions; communication and staff understanding; review and monitoring processes. This will feed in to a compliance review of agency staff later in the year (see compliance section).
Transformation Programme and Corporate Review	50	Making Every Penny Count	Cross-Cutting	Review(s) providing support to the ongoing work examining the Council's transformation programme, corporate capacity, business planning and future transformation projects, with a focus on the concept of 'making every penny count'; monitoring of savings; and benefits realisation. Requested by Sue Grace.
Traded Services - Cost Recovery	20	Making Every Penny Count	Cross-Cutting	Review of traded services with a focus on: development of robust Business Cases for traded services; and ensuring that services are recovering costs appropriately.
Making Every Penny Count (Compliance)				
VAT	20	Making Every Penny Count	Cross-Cutting	Review of compliance with VAT legislation, to provide assurance that the Council is able to fully offset expenditure on input VAT.
Review of Procurement	10	Making Every Penny Count	Cross-Cutting	Review of sample of invoices each quarter, to verify that value for money is being achieved across all Council procurement.
Overtime	20	Making Every Penny Count	Cross-Cutting	Review of compliance with overtime policies, with a focus on identifying areas of high expenditure, and any changes to policies which may benefit the Council.
Travel & Subsistence	20	Making Every Penny Count	Cross-Cutting	Review of compliance with travel and subsistence policies, with a focus on identifying areas of high expenditure, and any changes to policies which may benefit the Council.
Total MEPC:	200			

Anti-Fraud and Corruption				
Proactive Fraud Work				
Preventative & Pro-Active Fraud Work	10	Anti-Fraud and Corruption	Cross-Cutting	Deterrent; stopping fraud and encouraging reporting of concerns.
National Fraud Initiative	30	Anti-Fraud and Corruption	Cross-Cutting	Deterrent; stopping fraud; recouping lost funds.
St Luke's Working Party	10	Anti-Fraud and Corruption	CFA	Reducing the risk of fraud in Supported Living establishments by providing support to the development of improved policies and procedures.
Reactive Fraud Work				
Fraud Investigations	125	Anti-Fraud and Corruption	Cross-Cutting	Deterrent; stopping fraud; recouping lost funds.
Total Anti-Fraud and Corruption:	175			
Key Financial Systems				
Accounts Receivable	15	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Purchase to Pay	20	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Payroll	25	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
General Ledger	10	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Bank Reconciliation	5	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Treasury Management	5	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Financial Systems IT General Controls	10	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Risk Management	5	Key Financial Systems	Cross-Cutting	Review focusing on the risk management procedures and processes in place at the Council, and compliance with these.
Procurement Governance	20	Key Financial Systems	Cross-Cutting	Review covering policies and procedures governing procurement processes, and arrangements for monitoring compliance with procurement policies.
Debt Recovery	20	Key Financial Systems	Cross-Cutting	Review of debt recovery, with a focus on: appropriate policies and procedures for debt recovery; areas of high debt write-offs; and debt recovery timescales.
Total Key Financial Systems:	135			

Grants and Other Head of Audit Assurances				
Local Transport Capital Block Funding	5	Grants	ETE	Grant verification, including opinion on whether best value has been achieved.
Local Sustainable Transport Fund	5	Grants	ETE	Grant verification, including opinion on whether best value has been achieved.
Cycle City Phase II	5	Grants	ETE	Grant verification, including opinion on whether best value has been achieved.
Public Health Grant	5	Grants	PH	Independent opinion on compliance with Department for Health grant conditions and follow-up of agreed audit actions.
Troubled Families Grant	20	Grants	CFA	Grant verification.
Total Grants and Other Head of Audit Assurances:	40			
Commissioning & Contracts				
Current Capital Contracts Audit				
Schools Capital Programme	25	Commissioning & Contracts	CFA	Review of the schools capital programme, with a focus on the cost of building schools in relation to DfE comparators and the potential for reducing costs. Requested by Adrian Loades.
Current Revenue Contracts Audit				
Skanska Highways	25	Commissioning & Contracts	ETE	Open-book review of the current Skanska Highways revenue contract.
Other Commissioning & Contracts				
Highways Contract Transformation	25	Commissioning & Contracts	ETE	Ongoing support and advice to the Highways Transformation Project and competitive dialogue process. Requested by Graham Hughes.
Waste PFI Contract	25	Commissioning & Contracts	ETE	Support and advice to the renegotiation of the waste contract. Requested by Graham Hughes.
Off-Contract Spend	15	Compliance	Cross-Cutting	Review of expenditure made outside framework and corporate contracts, to ensure best value is achieved and to identify any areas where there may be potential to improve corporate contracts.
Commissioning	20	Commissioning & Contracts	Cross-Cutting	Review of commissioning, to ensure that the early stages of the commissioning cycle enable best value to be achieved through subsequent procurement and contract management processes, with a focus on: assessment and identification of need; consideration of options; and development of the service specification.
Total Commissioning & Contracts:	135			

Risk-Based Audits				
Section 106	20	Risk-Based Audits	ETE	Review to provide assurance over the processes in place for managing and monitoring the collection, receipt and use of funding from Section 106 Agreements. Requested by Graham Hughes.
Total Transport Pilot	20	Risk-Based Audits	ETE	Review focused on the implementation of the pilot project (scheduled for September 2016) with a particular focus on the framework for the assessment of results, and evaluation of results. Requested by Graham Hughes.
Replacement of AIS System	20	Risk-Based Audits	CFA	Review focused on the implementation of the system to replace the AIS social care system. Requested by Adrian Loades.
Commitment Records in CFA	20	Risk-Based Audits	CFA	Review on the use of commitment records for forecasting across CFA, with a focus on ensuring that forecasting is accurate and best practice is shared. Requested by Adrian Loades.
Public Health Joint Intelligence Unit	15	Risk-Based Audits	PH	Review of the arrangements for the new Public Health Joint Intelligence Unit, with a particular focus on arrangements for information governance and security, and intellectual property.
Other Risk-Based Audits	120	Risk-Based Audits	Cross-Cutting	Further audit reviews, to be determined by SMT/Audit Committee each quarter based on their assessment of risk.
Total Risk-Based Audits:	215			
Key Policies & Procedures				
Financial Regulations	5	Policies & Procedures	Cross-Cutting	Review of key policies and procedures
Contract Procedure Rules	5	Policies & Procedures	Cross-Cutting	Review of key policies and procedures
Business Continuity Policy	5	Policies & Procedures	Cross-Cutting	Review of key policies and procedures
Scheme of Delegation	5	Policies & Procedures	Cross-Cutting	Review of key policies and procedures
Information Governance Policies	10	Policies & Procedures	Cross-Cutting	Review of key policies and procedures
Code of Conduct and Behaviour Policies	5	Policies & Procedures	Cross-Cutting	Review of key policies and procedures
Risk Management Policy	5	Policies & Procedures	Cross-Cutting	Review of key policies and procedures
Enforcement Policy	5	Policies & Procedures	Cross-Cutting	Review of key policies and procedures
Other Key Policies & Procedures	15	Policies & Procedures	Cross-Cutting	Review of key policies and procedures

Total Policies & Procedures:	60			
Compliance				
Direct Payments Compliance	15	Compliance	CFA	Sample testing of Direct Payments files to confirm that: Direct Payments are not misused by service users; the Council monitors these effectively; and that surplus monies due for repayment are identified.
Duplicate Payments Follow-Up	5	Compliance	Cross-Cutting	Follow-up review of performance of the new processes for identifying duplicate payments at the Council.
Fees and Charges	10	Compliance	Cross-Cutting	Follow-up to the 2015/16 review of fees and charges, to identify compliance with the Council's Fees & Charges policy.
Grants to Voluntary Organisations	15	Compliance	Cross-Cutting	Reviewing grants made by the Council to voluntary organisations, to identify: how available grants are advertised and communicated; whether appropriate grant agreements are in place; arrangements for outcomes monitoring; and whether any organisations are receiving multiple grants.
Agency Staff Compliance	15	Compliance	Cross-Cutting	Review of the use of agency staff to identify areas of high expenditure and/or non-compliance with Council policies on agency staffing.
Unannounced Visits	20	Compliance	Cross-Cutting	3 - 4 supported living/residential/nursing establishments will be identified in conjunction with contract managers, for unannounced visits focusing on compliance with the Council's policies and expectations for management of service users' finances and safeguarding, and providing an appropriate deterrent to fraud.
Key Performance Indicators	15	Compliance	Cross-Cutting	Review of a sample of Key Performance Indicators to confirm that they are calculated and reported accurately in order to fully inform decision-making.
Scheme of Delegation	15	Compliance	Cross-Cutting	Review of a sample of decision-making to confirm that the Council's Scheme of Delegation is being complied with and that officers do not take decisions which are beyond their delegated powers.
Use of GPC	15	Compliance	Cross-Cutting	Review of the use of Government Purchase Cards, to confirm that cards are used in accordance with policies; that expenditure is monitored and approved appropriately; that best value is achieved; and that the risk of fraud is minimised.
Contract Extensions	15	Compliance	Cross-Cutting	Review of extensions made to contracts, to understand the reasons that contracts are extended, and whether extensions are achieving

				value for money.
EU Procurement Regulations	20	Compliance	Cross-Cutting	Review of high-value procurements to confirm compliance with EU Procurement Regulations.
Total Compliance:	160			
Schools Audits				
Schools Financial Value Standards (SFVS)	40	Schools Audit	CFA	Review of schools compliance with the Schools Financial Value Standards.
Safe Recruitment	40	Schools Audit	CFA	Review of schools compliance with Safe Recruitment policies.
Schools Purchasing & Payments	40	Schools Audit	CFA	Review of schools purchasing and payments.
Schools Training Sessions	5	Schools Audit	CFA	Providing training sessions to school governors.
Total Schools Audits:	125			
ICT and Information Governance				
Information Security	20	ICT and Information Governance	CST	Review of arrangements for Information Security, with a focus on: policies and procedures; compliance with legislative requirements; communication and staff awareness; compliance monitoring; and incident handling.
General Computer Controls	20	ICT and Information Governance	Cross-Cutting	Review of the General Computer Controls in place, with a focus on: access controls; physical security controls; system and data backup and recovery; system development and program change management controls.
Total ICT and Information Governance:	40			
Governance				
Annual Governance Statement/Code of Corporate Governance	15	Governance	Cross-Cutting	Annual Governance Statement/Code of Corporate Governance.
Assurance Framework	10	Governance	Cross-Cutting	Bi-annual review of the Council's Assurance Framework.
Total Governance:	25			

Strategic Risk Management				
Risk Management	75	Risk Management	Cross-Cutting	Strategic risk management processes.
Total Risk Management:	75			
Advice & Guidance				
Advice & Guidance	50	Advice & Guidance	Cross-Cutting	Providing support and guidance to staff on ad-hoc queries.
Follow-Ups of Agreed Actions	40	Advice & Guidance	Cross-Cutting	Confirming agreed actions have been implemented to reduce key organisational risks.
Committee Reporting	25	Advice & Guidance	Cross-Cutting	Reporting to Audit and Accounts Committee.
Management Reporting	25	Advice & Guidance	Cross-Cutting	Reporting to SMT.
Audit Plan	25	Advice & Guidance	Cross-Cutting	Development of the Internal Audit Plan and any in-year revisions/updates.
Total Advice & Guidance:	165			
Operational Plan Total - 2016/17	1550			