

**Report to** Audit committee  
15 March 2016  
**Report of** Head of internal audit and risk management, LGSS  
**Subject** Draft internal audit plan for Norwich City Council 2016-17

**Item**

**8**

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**Purpose**

This report provides the audit committee with an outline of the 2016-17 internal audit plan for Norwich City Council as attached at appendix 1.

**Recommendation**

To endorse the draft internal audit plan for Norwich City Council for 2016-17

**Corporate and service priorities**

The report helps to meet the corporate priority for value for money services

**Financial implications**

None directly

**Ward/s:** All wards

**Cabinet member:** Councillor Stonard – Resources and income generation

**Contact officers**

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LGSS

**Background documents**

None

# Report

## Background

1. 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.
2. 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 committee is effectively the 'Board' for the council.
3. 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.

## Audit planning

4. 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.”*
5. 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.
6. 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.”*
7. 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 committee. The head of internal audit will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan.

## **The planning process**

8. 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.
9. 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 committee every quarter, and should be reviewed and robustly challenged by the corporate leadership team (CLT), the S151 officer (chief finance officer) and the audit committee.
10. 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.

## **The annual internal audit plan**

11. 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.
12. 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.
13. 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.
14. 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.

## How assurance can be given

15. 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:
- (a) **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 are 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.
  - (b) **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.
  - (c) **Compliance:** Compliance work is fundamental as it provides assurance across all service areas 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.
  - (d) **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.
  - (e) **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.
  - (f) **Anti-fraud and corruption:** This is 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 accordance with the council's agreed savings for LGSS

no time has been allocated for this work in the 2016-17 plan but instead it has been agreed that any such work will be taken on a risk and reward basis with pieces of work agreed on an individual basis and expected to cover costs by savings generated.

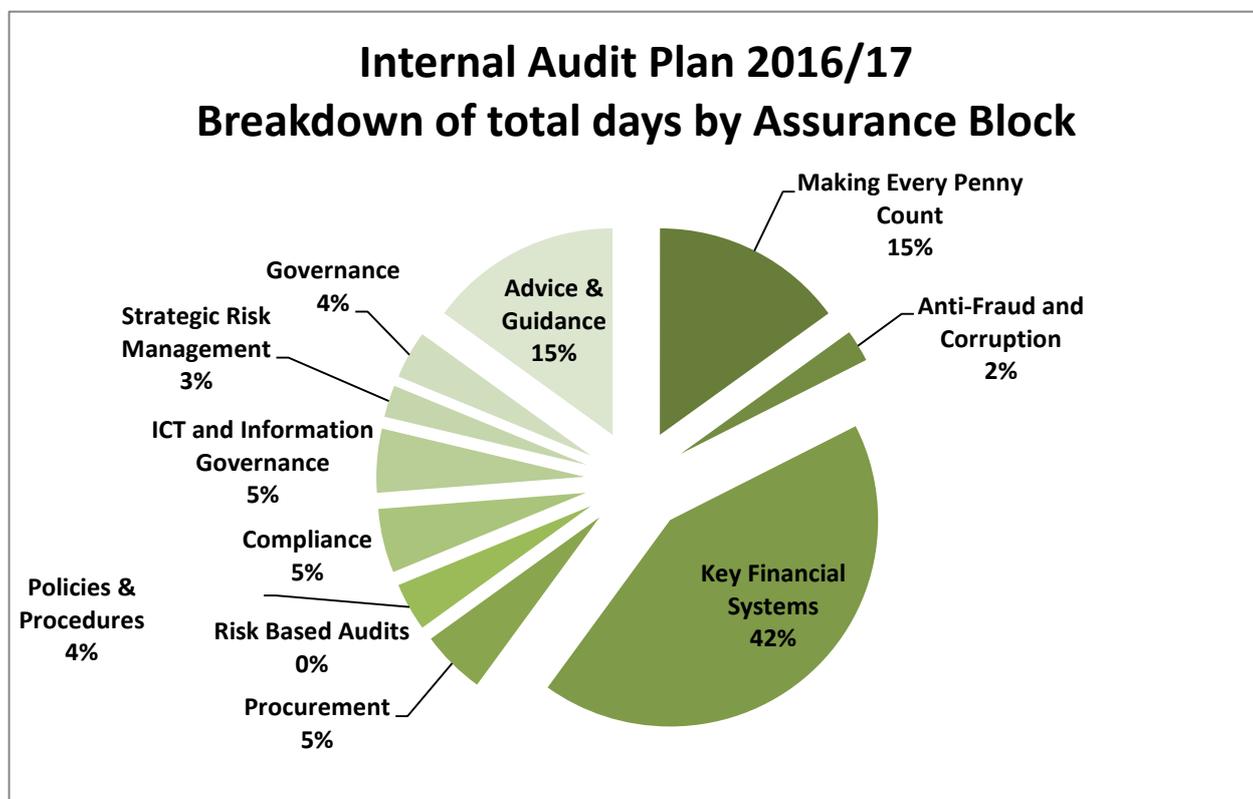
(g) **ICT and information governance:** The ICT assurance block includes reviews of key ICT risk areas – major ICT failure and ICT strategy. It also includes an allocation of time for the review of general computer controls to provide assurance that systems are correctly processing information accurately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

### Plan summary and resources

16. 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.

17. The audit plan has been agreed as 400 days. The impact of this reduction will be minimised through ongoing risk assessment work to ensure that resources are targeted to the highest-priority areas.

18. The proposed approximate split of time across the 2016-17 audit plan is as follows:



## **Conclusion**

19. 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.
20. 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.
21. Progress against the plan will be monitored throughout the year and key issues reported to CLT and the audit committee each quarter.
22. The draft internal audit plan 2016-17 is appended to this report.

Draft Internal Audit Plan 2016/17					
Audit	2016/17 Days	2017/18 Days	Assurance Block	Directorate	Why?
<b>Making Every Penny Count (Reviews)</b>					
Making Every Penny Count - Strategy	20	0	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.
Business Planning Benefits Realisation	10	0	Making Every Penny Count	Cross-Cutting	A review of General Fund business planning with a focus on: monitoring of savings; and benefits realisation.
HRA Business Planning	20	0	Making Every Penny Count	Cross-Cutting	A review of HRA business planning with a focus on spending to maintain and improve the housing stock.
Traded Services - Cost Recovery	0	20	Making Every Penny Count	Cross-Cutting	Review of traded services with a focus on: development of robust Business Cases for new traded services; and ensuring that services are recovering costs appropriately.
<b>Making Every Penny Count (Compliance)</b>					
VAT	0	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.
Overtime	0	0	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. Possible for 2018/19
Travel & Subsistence	10	10	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.
<b>Total Making Every Penny Count:</b>	<b>60</b>	<b>50</b>			
<b>Anti-Fraud and Corruption</b>					
<b>Proactive Fraud Work</b>					
Preventative & Pro-Active Fraud Work	0	0	Anti-Fraud and Corruption	Cross-Cutting	Deterrent; stopping fraud and encouraging reporting of concerns. To be agreed as and when opportunities highlighted that are expected to recover costs.
National Fraud Initiative	5	5	Anti-Fraud and Corruption	Cross-Cutting	Deterrent; stopping fraud; recouping lost funds.
<b>Reactive Fraud Work</b>					
Fraud Investigations	5	5	Anti-Fraud and Corruption	Cross-Cutting	Deterrent; stopping fraud; recouping lost funds.
<b>Total Anti-Fraud and Corruption:</b>	<b>10</b>	<b>10</b>			
<b>Key Financial Systems</b>					
Accounts Receivable	15	15	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Purchase to Pay	20	20	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Payroll	15	15	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Housing Rents/Arrears	20	20	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Housing Benefits	20	20	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Council Tax	15	15	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
NNDR	15	15	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Treasury Management	15	15	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Financial Systems IT General Controls	10	10	Key Financial Systems	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Procurement Governance	15	15	Key Financial Systems	Cross-Cutting	Review covering policies and procedures governing procurement processes, and arrangements for monitoring compliance with procurement policies.
Debt Recovery	10	10	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.
<b>Total Key Financial Systems:</b>	<b>170</b>	<b>170</b>			
<b>Commissioning &amp; Contracts</b>					
Current Capital Contracts Audit	10	10	Commissioning & Contracts	Cross-Cutting	Current contract audit, based on assessment of risk by CLT.
Current Revenue Contracts Audit	10	10	Commissioning & Contracts	Cross-Cutting	Current contract audit, based on assessment of risk by CLT.
Commissioning	0	10	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.
<b>Total Commissioning &amp; Contracts:</b>	<b>20</b>	<b>30</b>			
<b>Risk-Based Audits</b>					
Other Risk-Based Audits	0	0	Risk-Based Audits	Cross-Cutting	Further audit reviews, based on current assessments of risk.
<b>Total Risk-Based Audits:</b>	<b>0</b>	<b>0</b>			
<b>Key Policies &amp; Procedures</b>					
Financial Regulations	5	0	Policies & Procedures	Cross-Cutting	
Contract Procedure Rules	5	0	Policies & Procedures	Cross-Cutting	
Business Continuity Policy	0	5	Policies & Procedures	Cross-Cutting	
Scheme of Delegation	5	0	Policies & Procedures	Cross-Cutting	
Information Governance Policies	0	5	Policies & Procedures	Cross-Cutting	
People Strategy	0	5	Policies & Procedures	Cross-Cutting	
<b>Total Policies &amp; Procedures:</b>	<b>15</b>	<b>15</b>			
<b>Compliance</b>					
Fees and Charges	0	5	Compliance	Cross-Cutting	Review of fees and charges, to identify compliance with the Council's Fees & Charges policy.
Grants to Voluntary Organisations	0	5	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	5	0	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.
Key Performance Indicators	0	5	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	5	0	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	0	0	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. Possible for 2018/19.
Contract Extensions	0	5	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.

Audit	2016/17 Days	2017/18 Days	Assurance Block	Directorate	Why?
Off-Contract Spend	10	0	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.
<b>Total Compliance:</b>	<b>20</b>	<b>20</b>			
<b>ICT and Information Governance</b>					
Information Security	0	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	0	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.
<b>Total ICT and Information Governance:</b>	<b>20</b>	<b>20</b>			
<b>Governance</b>					
Corporate Governance	15	15	Governance	Cross-Cutting	AGS; Corporate Governance Group; Policy Updates
<b>Total Governance:</b>	<b>15</b>	<b>15</b>			
<b>Strategic Risk Management</b>					
Risk Management	10	10	Risk Management	Cross-Cutting	Administration and reporting of corporate risk register and risk management policies
<b>Total Risk Management:</b>	<b>10</b>	<b>10</b>			
<b>Advice &amp; Guidance</b>					
Advice & Guidance	20	20	Advice & Guidance	Cross-Cutting	Providing support and guidance to staff on ad-hoc queries.
Follow-Ups of Agreed Actions	20	20	Advice & Guidance	Cross-Cutting	Confirming agreed actions have been implemented to reduce key organisational risks.
Committee Reporting	8	8	Advice & Guidance	Cross-Cutting	Reporting to Audit Committee.
Management Reporting	8	8	Advice & Guidance	Cross-Cutting	Reporting to CLT.
Audit Plan	4	4	Advice & Guidance	Cross-Cutting	Development of the Internal Audit Plan and any in-year revisions/updates.
<b>Total Advice &amp; Guidance:</b>	<b>60</b>	<b>60</b>			
<b>Operational Plan Total - 2016/17</b>	<b>400</b>	<b>400</b>			