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| Report to | Audit Committee | Item 7 |
| | 14 March 2017 | |
| Report of | Chief Internal Auditor, LGSS | |
| Subject | Draft Internal Audit Plan for Norwich City Council 2017-18 | |

Purpose

This report provides the audit committee with an outline of the Internal Audit Plan for Norwich City Council as attached at appendix 1.

Recommendation

To endorse the draft Internal Audit Plan for Norwich City Council.

Corporate and service priorities

The report helps to meet the corporate priority “Value for money services”.

Financial implications

None

Ward/s: All wards

Cabinet member: Councillor Stonard – Resources and Business Liaison

Contact officers

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Background documents

None

1. THE INTERNAL AUDIT PLAN

1.1 BACKGROUND

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 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 Chief Internal Auditor, 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 Committee. The Chief Internal Auditor will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan.

1.2 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 Committee every quarter, and should be reviewed and robustly challenged by the Corporate Leadership Team, the S151 Officer and the Audit 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.

1.3 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 2017/18, 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 2017/18 and beyond.

1.4 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 assurance blocks, including:

1.4.1 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 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.

1.4.2 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.

1.4.3 Compliance

Compliance work is fundamental as it provides assurance across all service areas and therefore supports the Chief Internal Auditor 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.

1.4.4 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.

1.4.5 Commissioning and Contracts

Within this assurance block, a number of days are 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.

1.4.6 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 is allocated for this work in the 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.

1.4.7 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 PLAN SUMMARY AND RESOURCES

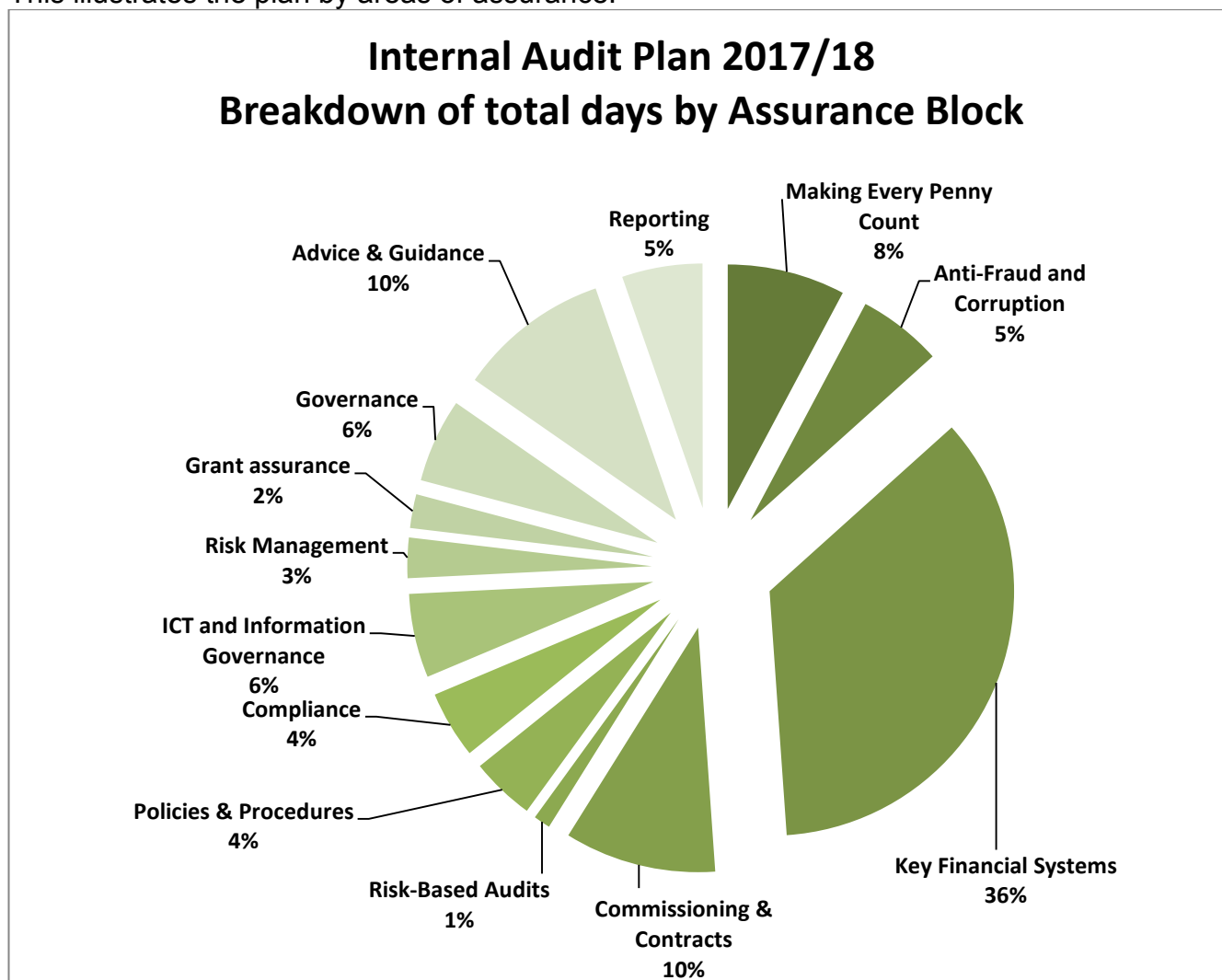
In summary, the audit plan maintains a focus on risk-based and compliance audits as well as providing assurance on key financial systems. This reflects the need to focus on the management of emerging risks and to ensure the continued operation of key controls within the Council's governance arrangements, systems and processes.

The audit plan has been agreed as 450 days. Reviews of all the Council's risks, controls and systems would exceed 450 days. Therefore ongoing risk assessment of this work will be completed to ensure that resources are targeted to the highest-priority areas.

Full details of the plan are appended to this report for information. The proposed approximate split of time across the audit plan is illustrated as follows:

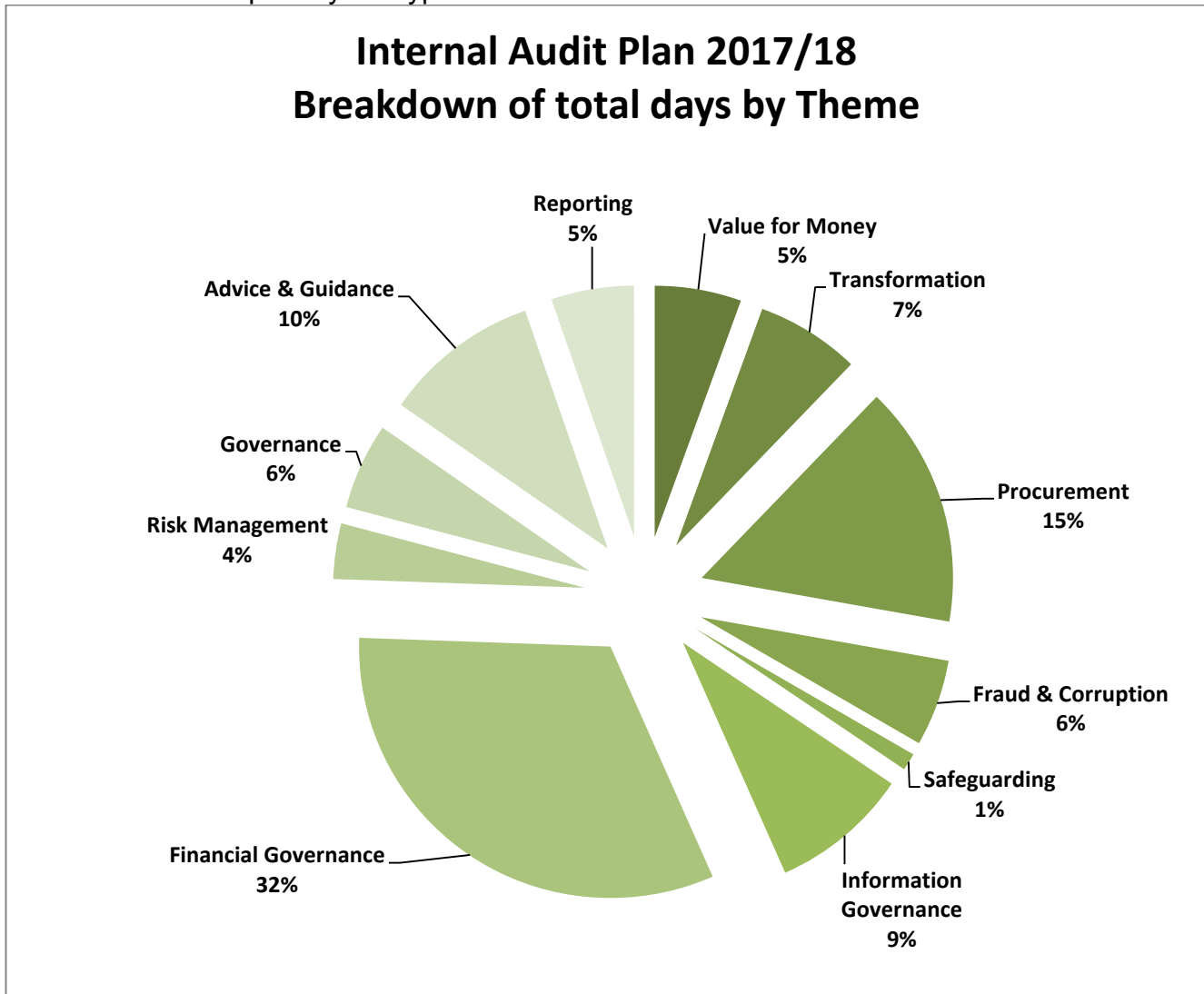
Assurance block

This illustrates the plan by areas of assurance:



Theme

This illustrates the plan by the type of review:



1.6 CONCLUSION

The 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 CLT and the Audit Committee each quarter.

1.7 THE DRAFT INTERNAL AUDIT PLAN

The Draft Internal Audit Plan is presented at Appendix 1.

| Draft Internal Audit Plan 2017/18 | | | | | | |
|--|----------------|----------------|---------------------------|----------------------|--------------------|---|
| Audit | 2017/18 | 2018/19 | Assurance Block | Theme | Directorate | Why? |
| Making Every Penny Count | | | | | | |
| Invoices over £500 | 5 | 0 | Making Every Penny Count | Value for Money | Cross-Cutting | Selection of five transactions over £500, to be checked against the published list, to ensure compliance with contract procedure rules, achievement of value for money, and to gain explanations from Officers where appropriate. |
| TRANSFORMATION AGENDA | | | | | | |
| Transformation projects | 30 | 0 | Making Every Penny Count | Transformation | Cross-Cutting | This review will focus on projects included within the 2017/18 transformation plan at key stages throughout the year. The 'standard' approach will include: robustness of business case; options appraisal; deliverability; project management and timescales; risk management; and benefits realisation. |
| Total Making Every Penny Count: | 35 | 0 | | | | |
| Anti-Fraud and Corruption | | | | | | |
| National Fraud Initiative | 20 | 20 | Anti-Fraud and Corruption | Fraud & Corruption | Cross-Cutting | Deterrent; stopping fraud; recouping lost funds - data matching |
| Fraud Investigations | 5 | 5 | Anti-Fraud and Corruption | Fraud & Corruption | Cross-Cutting | Deterrent; stopping fraud; recouping lost funds - initial review |
| Total Anti-Fraud and Corruption: | 25 | 25 | | | | |
| Key Financial Systems | | | | | | |
| Accounts Receivable | 15 | 15 | Key Financial Systems | Financial Governance | Cross-Cutting | Key Financial System review, scope agreed with External Audit. |
| Purchase to Pay | 20 | 20 | Key Financial Systems | Financial Governance | Cross-Cutting | Key Financial System review, scope agreed with External Audit. |
| Payroll | 15 | 15 | Key Financial Systems | Financial Governance | Cross-Cutting | Key Financial System review, scope agreed with External Audit. |
| Housing Rents/Arrears | 20 | 20 | Key Financial Systems | Financial Governance | Cross-Cutting | Key Financial System review, scope agreed with External Audit. |
| Housing Benefits | 20 | 20 | Key Financial Systems | Financial Governance | Cross-Cutting | Key Financial System review, scope agreed with External Audit. |
| Council Tax | 15 | 15 | Key Financial Systems | Financial Governance | Cross-Cutting | Key Financial System review, scope agreed with External Audit. |
| NNDR | 15 | 15 | Key Financial Systems | Financial Governance | Cross-Cutting | Key Financial System review, scope agreed with External Audit. |
| Treasury Management | 15 | 15 | Key Financial Systems | Financial Governance | Cross-Cutting | Key Financial System review, scope agreed with External Audit. |
| Procurement Governance | 15 | 15 | Key Financial Systems | Procurement | 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 | Value for Money | 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: | 160 | 160 | | | | |

| Audit | 2017/18 | 2018/19 | Assurance Block | Theme | Directorate | Why? |
|--|-----------|-----------|---------------------------|------------------------|---------------|--|
| Commissioning & Contracts | | | | | | |
| Contract Management | 15 | 15 | Commissioning & Contracts | Procurement | Cross-Cutting | Current contract audit, based on assessment of risk by CLT. |
| NPS Contract monitoring | 20 | 20 | Commissioning & Contracts | Procurement | Cross-Cutting | Looking at the governance arrangements between NoCC and NPS. A review of HRA business planning with a focus on spending to maintain and improve the housing stock. Contract monitoring including verification of KPIs. |
| Regeneration company | 5 | 5 | Commissioning & Contracts | Procurement | Cross-Cutting | Review of development of regeneration company. |
| Commissioning | 5 | 5 | Commissioning & Contracts | Procurement | 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. |
| Waste management | 0 | 10 | Commissioning & Contracts | Procurement | Cross-Cutting | Review of waste management, contractual arrangements, tariffs, charges and recycling credits. |
| Total Commissioning & Contracts: | 45 | 55 | | | | |
| Risk-Based Audits | | | | | | |
| Safe Recruitment | 5 | 0 | Risk-Based Audits | Safeguarding | Cross-Cutting | Ensuring that appropriate checks are completed for employees, such as DBS checks. |
| Car park income | 0 | 5 | Risk-Based Audits | Safeguarding | Cross-Cutting | Review of car park income processes for MSCP, Off street, and banking procedures. |
| Licensing | 0 | 5 | Risk-Based Audits | Safeguarding | Cross-Cutting | Review of licensing system and processes. |
| Tenant contributions | 0 | 5 | Risk-Based Audits | Safeguarding | Cross-Cutting | Review of charges in excess of normal rent payments. |
| Total Risk-Based Audits: | 5 | 15 | | | | |
| Key Policies & Procedures | | | | | | |
| Financial Regulations & Contract Procedure Rules | 5 | 5 | Policies & Procedures | Governance | Cross-Cutting | Review of key documents which support financial transactions against topical good practice and governance developments. |
| Business Continuity Policy | 5 | 0 | Policies & Procedures | Governance | Cross-Cutting | Review of policies which support long term continuity and emergency planning. |
| Information Governance Policies | 5 | 0 | Policies & Procedures | Information Governance | Cross-Cutting | Review of arrangements for Information Security, with a focus on: policies and procedures; communication and staff awareness. |
| Total Policies & Procedures: | 15 | 5 | | | | |

| Audit | 2017/18 | 2018/19 | Assurance Block | Theme | Directorate | Why? |
|--|-----------|-----------|--------------------------------|------------------------|---------------|--|
| Compliance | | | | | | |
| Fees and Charges | 5 | 5 | Compliance | Value for Money | Cross-Cutting | Review of fees and charges, to identify compliance with the Council's Fees & Charges policy. |
| Grants to Voluntary Organisations | 5 | 5 | Compliance | Value for Money | 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 | 0 | 5 | Compliance | Procurement | 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 | Governance | 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 compliance | 0 | 5 | Compliance | Governance | 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 | 5 | 5 | Compliance | Procurement | 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 | 5 | 5 | Compliance | Procurement | Cross-Cutting | Review of extensions made to contracts, to understand the reasons that contracts are extended, and whether extensions are achieving value for money. |
| Off contract spend | 0 | 5 | Compliance | Procurement | 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. |
| Total Compliance: | 20 | 40 | | | | |
| ICT and Information Governance | | | | | | |
| Information Security | 10 | 10 | ICT and Information Governance | Information Governance | Cross-Cutting | Review of arrangements for Information Security, with a focus on: compliance with legislative and policy requirements; compliance monitoring; and incident handling. |
| Financial Systems IT & General Computer Controls | 15 | 15 | ICT and Information Governance | Information Governance | Cross-Cutting | Review of financial system user controls, e.g. user access, payment instruments and processing (e.g. BACS). 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: | 25 | 25 | | | | |

| Audit | 2017/18 | 2018/19 | Assurance Block | Theme | Directorate | Why? |
|---|------------|------------|-----------------------|------------------------|---------------|---|
| Governance | | | | | | |
| Attend Information Governance Group | 5 | 5 | Governance | Information Governance | Cross-Cutting | Attending corporate project group |
| Attend Data Breach Response | 5 | 5 | Governance | Information Governance | Cross-Cutting | Reviewing effectiveness of internal controls. |
| Attend Corporate Governance Group | 5 | 5 | Governance | Governance | Cross-Cutting | Corporate Governance Group; Policy Updates |
| Annual Governance Statement | 10 | 10 | Governance | Governance | Cross-Cutting | Assurance mapping and draft to accompany statement of accounts |
| Total Governance: | 25 | 25 | | | | |
| Risk Management | | | | | | |
| Risk Management | 12 | 12 | Risk Management | Risk Management | Cross-Cutting | Administration and reporting of corporate risk register and supporting documents. |
| Risk Management Policy | 4 | 4 | Policies & Procedures | Risk Management | Cross-Cutting | Annual review of framework (policy and strategy) to best practice. |
| Total Risk Management: | 16 | 16 | | | | |
| Grant assurance | | | | | | |
| Disabled Facility Grant | 5 | 5 | Grant assurance | Financial Governance | Cross-Cutting | Certification to Norfolk CC - to be completed by 31st May 2017 |
| Cycle highways grant | 5 | 5 | Grant assurance | Financial Governance | Cross-Cutting | Certification to DfT - to be completed by 31st March 2018 (Yr 2 of 3) |
| Total Grant assurance: | 10 | 10 | | | | |
| Advice & Guidance | | | | | | |
| Advice & Guidance | 25 | 25 | Advice & Guidance | Advice & Guidance | Cross-Cutting | Providing support and guidance to staff on ad-hoc queries, and internal controls. |
| Follow-Ups of Agreed Actions | 20 | 20 | Advice & Guidance | Advice & Guidance | Cross-Cutting | Confirming agreed actions have been implemented to reduce key organisational risks. |
| Total Advice & Guidance: | 45 | 45 | | | | |
| Reporting | | | | | | |
| Committee Reporting | 8 | 8 | Reporting | Reporting | Cross-Cutting | Reporting to Audit Committee. |
| Management Reporting | 8 | 8 | Reporting | Reporting | Cross-Cutting | Reporting to CLT. |
| Audit Plan | 8 | 8 | Reporting | Reporting | Cross-Cutting | Development of the Internal Audit Plan and any in-year revisions / updates. |
| Total Reporting: | 24 | 24 | | | | |
| Operational Plan Total - 2017/18 | 450 | 445 | | | | |