Report to	Audit Committee	**Item**
	13 March 2018	
Report of	Chief Internal Auditor, LGSS	**8**
Subject	Draft Internal Audit Plan for Norwich City Council 2018-19	

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 Kendrick - Resources

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.

1.3 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 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.

1.4   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.

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 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. Maintaining a well communicated anti-fraud framework with clear guidance to encourage whistleblowing remains critical to good governance.

The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years 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 2018/19 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 and the Chief Internal Auditor 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 generally 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.

1.5.2   Core Annual Assurances

The Plan incorporates annual assurances over core elements of the organisation's overall control system, including strategic performance management, risk management and the Council's Code of Corporate Governance. These reviews provide assurance on the framework that ensures these policies and procedures are up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved.

1.5.3 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.

1.5.4   Policies & Procedures

Effective policies and procedures drive the culture and risk appetite of the organisation and ensure key control principles are captured. Internal Audit will give assurance on the framework that policies and procedures are appropriately 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.

1.5.5   Transformation

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. In order to address increased financial pressure on the organisation, the Council needs to transform and develop more effective working across all services. This work provides assurance over the management of the risks which accompany major transformation, and that benefits are delivered as planned. It also identifies two specific areas for review that could help improve decision making and positively contribute to the VFM agenda.

1.5.6 Project Management

This work provides assurance over project management across the organisation, and for 2018/19 there will be a focus on the development of project assurance frameworks to identify and monitor the Council's most high-risk projects. This work will help ensure that good project management is embedded within the Council and that evidence is available that supports decisions taken at the key 'gateways'.

1.5.7 Commissioning and Contracts

Commissioning and contracts remains a key area of risk for the Council. Effective and proportionate contract monitoring is essential not only to ensure that expected outcomes are achieved, but also that the Council achieves good cost control; meaning that CCC pays what it should, based on actual costs (or equivalent contract conditions). Higher-risk contracts have been selected for review, incorporating open-book assurance where possible, to ensure that these are operating in accordance with the terms of the contracts and value for money is being achieved by contract management activities. Work to examine the commissioning process as a whole is also included in this assurance block. 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.

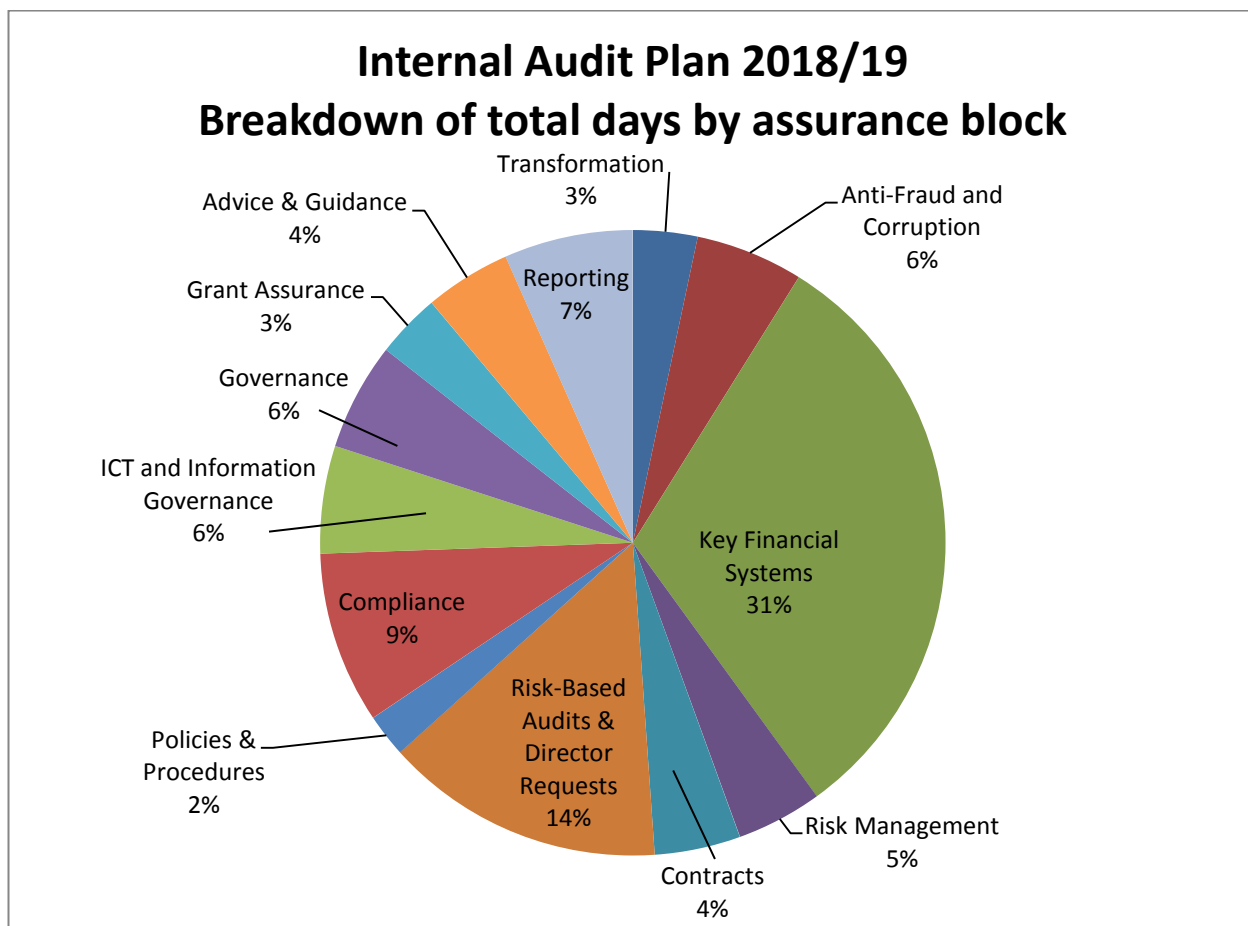### 1.5.8 ICT and Information Governance

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.

1.6   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 450 days. Ongoing risk assessment of this work will be completed to ensure that resources are targeted to the highest-priority areas.

The proposed approximate split of time across the 2018/19 Audit Plan is as follows:

Internal Audit Plan 2018/19
Breakdown of total days by assurance block

- Transformation 3%
- Anti-Fraud and Corruption 6%
- Key Financial Systems 31%
- Risk Management 5%
- Contracts 4%
- Risk-Based Audits & Director Requests 14%
- Policies & Procedures 2%
- Compliance 9%
- ICT and Information Governance 6%
- Governance 6%
- Grant Assurance 3%
- Advice & Guidance 4%
- Reporting 7%

1.7   CONCLUSION

The 2018/19 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.

1.8 THE DRAFT INTERNAL AUDIT PLAN 2018/19

The Draft Internal Audit Plan is presented at Appendix 1.

Draft Internal Audit Plan 2018/19					
Audit	**2018/19**	**Assurance Block**	**Theme**	**Directorate**	**Why?**
Transformation					
In order to address increased financial pressure on the organisation, the Council needs to transform and develop more effective working across all services. This work provides assurance over the management of the risks which accompany major transformation, and that benefits are delivered as planned.					
Transformation Programme	15	Transformation	Transformation	Cross-Cutting	Review of the Transformation Programme governance framework. To include project identification, business cases, option appraisals monitoring and benefits realisation.
Total Transformation:	**15**				
Anti-Fraud and Corruption					
Allocation of time for risk assessment and investigation of fraud and theft referrals. Should significant fraud be identified in-year management will be consulted as to the best way to investigate as well as, where appropriate, how to improve the control environment to reduce the risk of re-occurrence. The National Fraud Initiative is a national data matching exercise & internal audit will coordinate the data cut on behalf of Norwich City Council.					
National Fraud Initiative	20	Anti-Fraud and Corruption	Fraud & Corruption	Cross-Cutting	Management of statutory National Fraud Initiative.
Fraud Investigations	5	Anti-Fraud and Corruption	Fraud & Corruption	Cross-Cutting	Allocation of time for risk assessment and investigation of fraud and theft referrals. Should significant fraud be identified in-year CLT will be consulted as to the best way to investigate as well as, where appropriate, how to improve the control environment to reduce the risk of re-occurrence.
Total Anti-Fraud and Corruption:	**25**				
Key Financial Systems					
Providing assurance that the Council has made arrangements for the proper administration of its financial affairs, these system audits are agreed in advance with External Audit and focus on the systems with the highest financial risk. These reviews give an opinion as to the effectiveness of financial management procedures and arrangements to ensure the integrity of accounts.					
Accounts Receivable	15	Key Financial Systems	Financial Governance	Cross-Cutting	Annual assurance over Key Systems conducting transactional testing.
Purchase to Pay	15	Key Financial Systems	Financial Governance	Cross-Cutting	
Payroll	15	Key Financial Systems	Financial Governance	Cross-Cutting	

Housing Rents/Arrears	20	Key Financial Systems	Financial Governance	Cross-Cutting	
Housing Benefits	20	Key Financial Systems	Financial Governance	Cross-Cutting	
Council Tax	15	Key Financial Systems	Financial Governance	Cross-Cutting	
NNDR	15	Key Financial Systems	Financial Governance	Cross-Cutting	
Treasury Management	15	Key Financial Systems	Financial Governance	Cross-Cutting	
Debt Recovery	10	Key Financial Systems	Value for Money	Cross-Cutting	
Total Key Financial Systems:	**140**				
Strategic Risk Management					
Assurance over the Council's risk management framework in addition to support, advice and facilitation of strategic risk management processes.					
Strategic Risk Management	15	Risk Management	Risk Management		Administration and reporting of corporate risk register and supporting documents.
Risk Management	5	Risk Management	Risk Management	Cross-Cutting	Assurance over the Council's risk management framework
Total Risk Management:	**20**				
Contracts					
This is a key area of risk. Effective and proportionate contract monitoring by the Council is essential to ensure good cost control (i.e. we pay what we should based on actual costs/'contract' conditions) and that expected outcomes from these contracts are achieved. Higher-risk contracts have been selected for review, incorporating open-book assurance where possible to ensure that these are operating in accordance with the terms of the contracts and value for money is being achieved by contract management activities. Work to examine the commissioning process as a whole is also included in this assurance block.					
Contract Management	20	Contracts	Procurement	Cross-Cutting	Based on assessment of risk, concentrating on contract monitoring and open book reviews where appropriate. Each review is estimated at 20 days. Potential review areas identified after discussions with key officers include contracts for Refuse, Repairs and Maintenance, and Grounds, Streets and Trees, NPS and Waste Management.
Total Contracts:	**20**				
Risk-Based Audits & Director Requests					

These are areas of risk specifically identified by key officers during the consultation process and have been requested to be included in the 2018/19 Audit Plan. This block also includes areas where the Audit Committee require additional assurances. Assurance over key organisational risks and requests for specific audit reviews by individual Directors will not only give directors the assurance they have requested but will support the annual Head of Internal Audit opinion across the control environment.

Fees and Charges Policy	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Development of guidance to help colleagues consider the impact (cost/benefit) of including discretionary elements within eligibility criteria for service users and against best practice.
Commercial Rents	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Review policies and processes for commercial property voids and rent reviews.
Attend HR & Finance Project Meetings	15	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Providing support and guidance to project group on risk management and internal controls.
Project Management	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Review of projects assurance framework. Effectiveness in ensuring all projects are risk-assessed and the most high-risk projects have a project manager assigned and support from the appropriate professional services, e.g. finance, democratic services
Norwich Regeneration Limited	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Review the suite of assurances required by Norwich CC to ensure governance arrangements in place at NRL are effective & proportionate to ensure NoCC objectives are achieved and interests protected. This could be 3PA and reliance on NRL internal auditors & company director assurance statements.
Discretionary and Non-Statutory Service Provision & Expenditure	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Review of guidance available to help colleagues consider the impact (cost/benefit) of including discretionary elements within eligibility criteria for service users including comparison with other Council's. Evaluate guidance available against best practice. Review agreed key areas and compare to similar Council's and attempt to quantify the positive outcomes achieved by investing in discretionary spend.
Total Risk-Based Audits:	**65**				
Key Policies & Procedures					

Effective policies and procedures drive the culture and risk appetite of the organisation and ensure key control principles are captured. They should be reviewed annually to ensure they remain proportionate and effective.					
Annual Key Policies & Procedures Review	6	Policies & Procedures	Governance	Cross-Cutting	Following previous year audit reviews of core policies and procedures, this review will provide assurance that there is an effective framework to ensure key policies are reviewed, updated and effectively communicated.
Financial Regulations	2	Policies & Procedures	Governance	Cross-Cutting	Review of key policies to ensure they have been updated in line with current risk appetites and accepted good governance and effectively communicated.
Contract Procedure Rules	2	Policies & Procedures	Governance	Cross-Cutting	
Total Policies & Procedures:	**10**				
Compliance					
Compliance checks across the organisation to provide assurance on whether critical controls within key policies and procedures are routinely complied with in practice. Proposed coverage is underpinned by an assessment of the Council's framework of controls and findings from previous audit work.					
Fees and Charges	5	Compliance	Value for Money	Cross-Cutting	Review of fees and charges, to identify compliance with the Council's Fees & Charges policy.
Key Performance Indicators	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 appropriately inform decision-making.
Scheme of Delegation compliance	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.
Procurement Compliance	20	Compliance	Value for Money	Cross-Cutting	4x reviews throughout the year of a sample of invoices, to provide assurance over risk that best value is not being achieved across all Council procurement. Once invoices have been selected, the review will work backwards through the commissioning process to confirm compliance and VFM.

Contract Extensions	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.
Total Compliance:	**40**				
ICT and Information Governance					
Reviews of key risk areas around information governance and information security, as well as coverage of key ICT risk areas such as major ICT failure.					
Information Security & GDPR	15	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	10	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**				
Governance					
Attend Information Governance Group	5	Governance	Information Governance	Cross-Cutting	Attending corporate project group.
Attend Data Breach Response	5	Governance	Information Governance	Cross-Cutting	Reviewing effectiveness of internal controls.
Attend/facilitate Corporate Governance and RM Group	5	Governance	Governance	Cross-Cutting	Attend Corporate Governance & RM Group, facilitate the agenda items covering Risk Management.
Annual Governance Statement	10	Governance	Governance	Cross-Cutting	Assurance mapping and draft to accompany statement of accounts.
Total Governance:	**25**				
Grant assurance					
Provision of assurances over grant funding from central government where a Head of Audit opinion is required. These are becoming more in number each year and management will be kept informed of new requirements via the normal reporting mechanisms.					
Grant Awareness	5	Grant assurance	Financial Governance	Cross-Cutting	Ensure the Council is maximising the opportunity to receive grant funding.

Disabled Facility Grant	5	Grant assurance	Financial Governance	Cross-Cutting	Certification to Norfolk CC - to be completed by 31st May 2017
Cycle highways grant	5	Grant assurance	Financial Governance	Cross-Cutting	Certification to DfT - to be completed by 31st March 2018 (Yr 2 of 3)
Total Grant assurance:	**15**				
Advice & Guidance					
Advice & Guidance	10	Advice & Guidance	Advice & Guidance	Cross-Cutting	Providing support and guidance to staff on ad-hoc queries, and internal controls.
Follow-Ups of Agreed Actions	10	Advice & Guidance	Advice & Guidance	Cross-Cutting	Confirming agreed actions have been implemented to reduce key organisational risks.
Total Advice & Guidance:	**20**				
Reporting					
Committee Reporting	12	Reporting	Reporting	Cross-Cutting	Reporting to Audit Committee.
Management Reporting	10	Reporting	Reporting	Cross-Cutting	Reporting to CLT, Director of Business Services and S151 Officer.
Audit Plan	8	Reporting	Reporting	Cross-Cutting	Development and full consultation on the Annual Internal Audit Plan and any in-year revisions / updates.
Total Reporting:	**30**				
Operational Plan Total - 2018/19	**450**				