

PERTH AND KINROSS COUNCIL**Audit Committee****27 September 2017****INTERNAL AUDIT STRATEGY & PLAN 2017/18****Report by Chief Internal Auditor****PURPOSE OF REPORT**

This report presents the strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for the October 2017 to March 2018.

1. BACKGROUND

- 1.1 Internal Audit, as defined in the Public Sector Internal Audit Standards (PSIAS), is an independent, objective assurance and consulting activity designed to add value and improve the effectiveness of the Council's operations. It helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of risk management, control and governance processes.
- 1.2 The PSIAS require the Chief Internal Auditor to prepare a risk based Internal Audit Plan (the Plan) setting out the team's annual work programme. The Plan should take account of the Council's objectives, risk and performance management arrangements.
- 1.3 In order to ensure compliance with the PSIAS requirement of undertaking an annual risk assessment, a detailed exercise reviewing the 'audit universe' (which includes all significant activities and systems that contribute to the achievement of the Council's objectives) has been undertaken. This includes a review of the main priorities, aims and objectives of the Council and its key partners, as set out in the Single Outcome Agreement, the Corporate Plan, Service BMIPs and the Business Plan.
- 1.4 In February 2017, the Strategic Policy and Resources Committee approved revised arrangements for the corporate management of risk (report 17/63). The embedding of these changes may change the shape of Internal Audit plans going forward and will provide an improved position for Internal Audit to place reliance on the Council's risk management arrangements. A working group has been established to develop and embed the strategy both corporately and within Services and training has been delivered to the relevant key officers responsible for these tasks.
- 1.5 This Internal Audit Plan has further benefited from taking into consideration the outcomes from the self-assessment exercise and evidence that supports the Annual Governance Statement, which is included as part of the final accounts provided to External Audit in June.

- 1.6 Internal Audit has therefore taken these developments into account and presents for approval a plan for the period October 2017 to March 2018. This plan, taken together with the plan previously approved by Audit Committee in April 2017 (Report 17/150 refers), will constitute Internal Audit work for the financial year 2017/18.
- 1.7 In developing this Plan, outcomes from the 2016/17 Annual Governance Statement (AGS) process and the ongoing improvements to the corporate management of risk have been taken into consideration. The Local Area Network of external scrutiny bodies undertakes a strategic risk assessment for Perth & Kinross Council and produces an Assurance and Improvement Plan, which is the assessment of the level of external scrutiny required for each council, and this has been examined and a discussion has taken place with the Council's External Auditors regarding their priorities and in order to ensure that there is no duplication of audit effort. Previous Internal Audit activity and information regarding complaints to the Council have also contributed to the development of the audit universe. Consultation has also taken place with Services regarding Internal Audit coverage for the period covered by the Plan.
- 1.8 Each potential audit subject is assigned a priority rating which derives from an assessment of four factors:
- (i) the significance of the activity or system in relation to the Council's objectives;
 - (ii) the likely consequences of a failure of control, whether in financial, legal, health & safety, reputational or other ways;
 - (iii) the degree of change in the activity or system, whether legislative, managerial or in other ways;
 - (iv) the assessed strength of the internal controls in place, where known, and reported performance.
- 1.9 The priority ratings are assigned independently by Internal Audit; however, the process benefits greatly from the information provided by Services during consultation.
- 1.10 Once the priority ratings have been assigned, a review of the available resources is undertaken. For the year 2017/18, some resources will be utilised by working collaboratively with Highland Council to augment the capacity of the Internal Audit team in order to deliver more technical IT audits. This will ensure that a greater number and more technical audits can be undertaken within the year.
- 1.11 Each audit assignment has been assessed with regard to the indicative scope and has been assigned an appropriate level of resource in order to deliver the assignment. The allocation of resources is based on the assumption that there will be no significant issues arising from the audit which require any detailed investigative work over and above the anticipated assurance work on the control environment.

- 1.12 An allocation of resources has been set aside to enable Internal Audit to respond to requests for ad hoc advice or requests for unplanned consultancy during the year. The allocation also provides for resources to be available to support the Counter-Fraud and Corruption Strategy and to undertake investigations as required. This resource equates to roughly 10% of resources available for Internal Audit activity.
- 1.13 A further allocation of resources has been set aside within the Plan to support the Chief Internal Auditor of NHS Fife, Tayside and Forth Valley in delivering the Internal Audit Plan for the Integrated Joint Board. Detailed work in this area will be approved by, and reports will be submitted to, the Integrated Joint Board.
- 1.14 Internal Audit has acquired a data analytics tool to assist in some assurance audits. This tool, IDEA, will enable Internal Audit to analyse large volumes of data and target resources appropriately. It can also facilitate further data matching and counter fraud work. As a result, development time has been included within the plan to ensure that this tool is utilised to the greatest benefit of the Council.

2. PROPOSALS

- 2.1 Appendix A shows a summary of the forecast internal audit resources for October 2017 to March 2018. The 'Days available for allocation to PKC Internal Audit Plan' equates to 14 audit assignments plus the IT audit to be delivered by Highland Council. This represents the 'core' audit plan for the Council and is in addition to other direct audit work, including:
- (i) supporting the Chief Internal Auditor for the Integrated Joint Board;
 - (ii) the certification of Council grant claims;
 - (ii) facilitating the Council's response to the National Fraud Initiative; and
 - (iii) other ad-hoc audit assignments.
- 2.2 Appendix B shows the assignments which are proposed to be undertaken during October 2017 to March 2018. It highlights the areas to be audited, along with the indicative scope of the assignment. The number of audit days attributable to each audit has been estimated and is included here for information, along with the indicative time scales for each audit. The 2017/18 Audit Plan is summarised in the table below:

Quarter	Title	Lead Service
3	Creditors	Corporate & Democratic Services
3	Elected Members' Allowances	Corporate & Democratic Services
3	Council Tax	Housing & Communities
3	Corporate Health & Safety	The Environment Service
3	LEADER	The Environment Service
3	European Social Fund	The Environment Service
3	Early Learning & Child Care	Education & Children's Services

Quarter	Title	Lead Service
3	IT Change Management	Corporate & Democratic Services
4	Housing Repairs & Improvements Service Financial Controls	Housing & Communities
4	IR35	Corporate & Democratic Services / All Services
4	Pupil Equity Fund	Education & Children's Services
Through-out year	Integrated Adult Health & Social Care	Integrated Joint Board
Through-out year	Grant claim certification as required	The Environment Service
<i>Consultancy</i>		
3 & 4	Commissioning Strategy	Education & Children's Services
3 & 4	System Developments to support the General Outcome Focussed Assessment	Housing & Community Safety / Health & Social Care Partnership
4	General Data Protection Regulations	Corporate & Democratic Services / All Services
Through-out year	Arms Length External Organisations (ALEOs)	Corporate
Through-out year	Supporting the embedding of new Risk Management arrangements	Corporate
Through-out year	Transformation	Corporate
Through-out year	Corporate Governance	Corporate & Democratic Services
Through-out year	Community Empowerment	Corporate & Democratic Services

- 2.3 Appendix B also highlights a division between assurance and planned consultancy activity, which may take place over a longer period. The consultancy assignments are a more pro-active, enabling audit approach and aim to support management in building in controls at the outset for the implementation of systems, processes and procedures and also for the provision of specific assurance for particular projects or issues at the request of management. This approach is consistent with the PSIAS and with the Internal Audit Charter, which is presented for approval by this Committee.
- 2.4 The listing of audit subjects by Council Service and Division in Appendix B is intended only as a guide. It does not necessarily imply that sole responsibility for that activity or system rests with the Service named or that the audit will be restricted to the work of that Service. In particular, many subjects of a 'corporate' nature (including most of the Council's financial systems) may require access to records across all Services.

- 2.5 It is not the purpose of this part of the planning process to specify the content of each audit in detail, but the high-level indicative scope has been captured to indicate the areas which will be subject to review. This will minimise the time taken in the detailed scoping of assignments at a future date.
- 2.6 The planned work will take place from October 2017 to March 2018.
- 2.7 The responsibility for implementing and maintaining the appropriate controls in each area rests with management. The purpose of the internal audit process is to provide independent assurance to the Council that these controls are appropriate and are operating effectively. The aim of the prioritisation process described above is to ensure that this assurance is directed to those areas where it is of most benefit in supporting the delivery of the Council's objectives.
- 2.8 The achievement of the audit plan is based on the assumption of the availability of the anticipated financial and staffing resources. It is also reliant upon the co-operation of Council Services throughout the process, from agreeing the scope of the audit to the implementation of agreed actions.

3. CONCLUSION AND RECOMMENDATION

- 3.1 It is recommended that the Audit Committee considers and approves the proposed internal audit plan for the period October 2017 to March 2018.

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Strategic Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	Yes
Communication	
Communications Plan	None

1. Strategic Implications

1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

2. Assessments

2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

3. **Consultation**

3.1 Internal

- 3.1.1 The Chief Executive, Depute Chief Executives, Directors, the Head of Finance, the Head of Legal and Governance Services, relevant Heads of Service and Elected Members on the Audit Committee have been consulted in the preparation of this report.

3.2 External

- 3.2.2 The Council's External Auditors, KPMG, have been consulted in the preparation of this report.

2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. **APPENDICES**

Appendix A – Internal Audit Resources (Audit Days) for October 2017 to March 2018

Appendix B – The Internal Audit Plan for October 2017 to March 2018

Internal Audit Resources (Audit Days) for October 2017 to March 2018

Description	2017/18 Quarters 3 & 4
Days Attendance at Work (Net of Public Holidays, Annual Leave and Sickness Allowance)	455
Less: Time on Other Non-Audit Activity (Team and Other Meetings, Training, Personnel and Other Management Tasks)	(50)
Days Available for internal audit activity	405
Less: Time on 'Core' Audit Work (Follow-Up, Strategic Audit Planning, Supporting the Audit Committee, Development of Policies & Procedures, Supervision and Quality Assurance)	(85)
Grant certification, supporting the National Fraud Initiative and IJB audit work	(40)
Allocation of resources for unplanned work, ad-hoc advisory work, investigations and Counter-Fraud and Corruption	(40)
Days available for allocation to specified assignments	240
Equivalent Assignments	13
Anticipated externally delivered assignments	1
Total assignments included within the 2017/18 Internal Audit Plan for October 2017 to March 2018	14
Total assignments included within the whole year's planned activity for 2017/18	29

The Internal Audit Plan for October 2017 to March 2018

Internal Audit Assignments:

Service	Division	Title	Indicative Scope	Internal Audit Priority rating	Total days	Quarter
Corporate & Democratic Services	Finance Division	Creditors	To provide assurance over the effectiveness of controls within the Creditors system	Medium	20	3
Corporate & Democratic Services	Finance Division	IR35	To provide assurance to the Head of Finance on Service compliance with processes for the Inland Revenue's intermediaries legislation, known as IR35	High	15	4
Corporate & Democratic Services	Finance Division / Democratic Services	Elected Members Allowances	To provide assurance over the controls in place for the payment of elected member allowances and expenses.	Medium	20	3
Corporate & Democratic Services	Corporate IT	IT Change Management	To provide assurance over the arrangements in place for the management of change within the IT environment.	Medium	*	3/4
Education & Children's Services	Education Services	Early Learning & Childcare	To provide assurance over the Council's preparations for the implementation of 1140 hours of early learning and childcare.	Medium	25	3
Education & Children's Services	Education Services	Pupil Equity Fund	To provide assurance that arrangements are in place and are effective to ensure that schools and the Council can demonstrate that pupil equity funding is appropriately targeted in line with requirements.	High	25	4
Housing & Community Safety	Finance & Revenues	Council Tax	To provide assurance over the effectiveness of the controls within the Council Tax system	Medium	25	3

Service	Division	Title	Indicative Scope	Internal Audit Priority rating	Total days	Quarter
Housing & Community Safety	Housing	Financial Control	To provide assurance over financial controls within the Housing Repairs and Improvements Service	Medium	20	4
The Environment Service	Performance & Resources	Corporate Health & Safety	To provide assurance over the effectiveness of the model for ensuring that the Council manages its responsibility for Health & Safety.	Medium	25	3
The Environment Service	Economic Development	LEADER	To undertake an audit of LEADER	High	20	3
The Environment Service	Economic Development	European Social Fund	To undertake an audit of the European Social Fund	Medium	10	3
<i>Total days allocated to traditional audit activity</i>					205	

* highlights an assignment to be undertaken through an externally-procured arrangement.

Consultancy Assignments:

Service	Division	Title	Indicative Scope	Internal Audit Priority rating	Total days	Quarter
Education & Children's Services	Whole Service	Commissioning Strategy	To provide advice and support to the Service for the implementation and monitoring of the Strategy	Medium	7	3 & 4
Health & Social Care Partnership	Adult Social Work and Social Care	General Outcome Focussed Assessment	To provide advice and support to the Business Improvement Team in developing improvements to the automation of the GOFA processes.	High	8	3 & 4

Service	Division	Title	Indicative Scope	Internal Audit Priority rating	Total days	Quarter
Corporate & Democratic Services	Legal and Governance Services	General Data Protection Regulations	To provide assurance regarding Services preparedness for the Regulations being enacted in May 2018	High	20	4
Corporate	All Services	Corporate Risk Management	To continue to support Services with embedding adequate arrangements in line with the approved risk management policy and strategy.	High	Ongoing for the whole of 2017/18	
Corporate	All Services	Corporate Risk Management	To continue to support Services with embedding adequate arrangements in line with the approved risk management policy and strategy.	High	Ongoing for the whole of 2017/18	
Corporate	Corporate & Democratic Services	ALEOs	To continue to provide resources to ensure that there is an appropriate governance framework for the ALEOs	High	Ongoing for the whole of 2017/18	
Corporate	Various	Transformation	To continue to provide resources to support the transformation agenda	High	Ongoing for the whole of 2017/18	
Corporate & Democratic Services	Community Planning, Strategic Commissioning and Organisational Development	Community Planning	To continue to act as a 'critical friend' and contribute to the governance framework for the development in relation to community empowerment.	High	Ongoing for the whole of 2017/18	
<i>Total days allocated to planned consultancy audit activity</i>					35	
TOTAL AUDIT DAYS					240	

