

PERTH AND KINROSS COUNCIL

Audit Committee

27 June 2018

THE INTERNAL AUDIT STRATEGY & PLAN, 2018/19

Report by the Chief Internal Auditor (Report No.18/221)

PURPOSE OF REPORT

This report presents the strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for July 2018 to March 2019.

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, an exercise reviewing the 'audit universe' (which includes all significant activities and systems that contribute to the achievement of the Council's objectives) is 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 and Community Plans, 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 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. In addition, workshops have been held within Services to understand and document key risks.
- 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 2018.

- 1.6 In developing this Plan, outcomes from the 2018/19 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. 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.
- 1.7 Where appropriate, Internal Audit has linked the proposed Plan to the Corporate Plan demonstrate where Internal Audit's work directly contributes to the achievement of the Council's objectives of:
 1. Giving every child the best start in life;
 2. Developing educated, responsible and informed citizens;
 3. Promoting a prosperous, inclusive and sustainable economy;
 4. Supporting people to lead independent, healthy and active lives; and
 5. Creating a safe and sustainable place for future generations.
- 1.8 Internal Audit has therefore taken these developments into account and presents for approval a plan for the period July 2018 to March 2019. This plan, taken together with the plan previously approved by Audit Committee in March 2018 (Report 18/109 refers), will constitute Internal Audit work for the financial year 2018/19.
- 1.9 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.
- 1.10 The priority ratings are assigned independently by Internal Audit; however, the process benefits greatly from the information provided by Services during consultation.
- 1.11 Once the priority ratings have been assigned, a review of the available resources is undertaken.
- 1.12 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.

- 1.13 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.
- 1.14 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.
- 1.15 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 July 2018 – March 2019. The 'Days available for allocation to PKC Internal Audit Plan' equates to 21 audit assignments. 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 July 2018 to March 2019. 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.

2.3 The 2018/19 Audit Plan is summarised in the table below:

Quarter	Title	Lead Service
2	School Estate	Education & Children's Services
2	Management of Contracts	Corporate & Democratic Services
2	Review of Internal Controls following a Significant Fraud in another Council.	Corporate & Democratic Services
2	Workforce Planning	Corporate & Democratic Services
2 & 3	Welfare Reform	Corporate & Democratic Services
3	Payroll	Corporate & Democratic Services
3	Sales Ledger	Corporate & Democratic Services
3	Residential Services	Education & Children's Services
3	Tay Cities Deal	Housing & Environment
3	LEADER	Housing & Environment
3	Carbon Reduction Commitment and Climate Change	Housing & Environment
4	Financial Assessment & Charging	Corporate & Democratic Services
4	General Data Protection Regulations	Corporate & Democratic Services / All Services
4	Carers Act	Health & Social Care
4	Local Action Partnerships	Corporate & Democratic Services
Through-out year	Continuous auditing with IDEA	All Services
<i>Consultancy</i>		
2	Community Empowerment	Corporate & Democratic Services
3 & 4	Commissioning Strategy	Education & Children's Services
3 & 4	Inclusion Services	Education & Children's Services
Through-out year	Corporate Risk Management	Corporate & Democratic Services
Through-out year	ALEOs	Corporate & Democratic Services
Through-out year	Transformation	Corporate

- 2.4 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.
- 2.5 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.
- 2.6 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.
- 2.7 The planned work will take place from July 2018 to March 2019.
- 2.8 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.
- 2.9 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 July 2018 to March 2019.

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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, Audit Scotland, 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 July 2018 to March 2019

Appendix B – The Internal Audit Plan for July 2018 to March 2019