

**PERTH AND KINROSS COUNCIL****Audit Committee****18 April 2017****THE INTERNAL AUDIT STRATEGY & PLAN, 2017/18****Report by the 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 April to September 2017.

**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.
- 1.5 The Internal Audit Plan will further benefit 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 April to September 2017. This plan

takes account of the assignments which have been previously approved by Audit Committee in March 2017 (Report 17/116 refers).

- 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.

## 2. PROPOSALS

- 2.1 Appendix A shows a summary of the forecast internal audit resources for April – September 2017. 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 April to September 2017. 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
1	Management of Contracts	All Services
1 *	General Outcome Focussed Assessment	Health & Social Care Partnership
1	Partnership Working – Community Justice Partnership	Housing & Community Safety
1 *	Financial Management of Secondary Schools	Education & Children's Services
1 *	Capital Programme	The Environment Service
2	Northgate Housing System	Housing & Community Care / Corporate & Democratic Services
2	Financial Assessment & Charging Follow Up	Housing & Community Safety
Through-out year	Integrated Adult Health & Social Care	Integrated Joint Board
Through-out year*	Grant claim certification as required	The Environment Service

<b>Quarter</b>	<b>Title</b>	<b>Lead Service</b>
<i>Consultancy</i>		
1 *	Child's Plan	Education & Children's Services
1	IR35	Corporate & Democratic Services
1&2	Arms Length External Organisations (ALEOs)	
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
Through-out year	New process development	Education & Children's Services

*\* Previously approved as part of the Internal Audit Update in March 2017 (Report 17/116 refers)*

- 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, approved by the Audit Committee in November 2015 (report 15/545 refers).
- 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 April to September 2017.
- 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. Appendix D details the protocol with Services for the delivery of the Internal Audit Service.

### 3. CONCLUSION AND RECOMMENDATION

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

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

- 3.1.2 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 April to September 2017

Appendix B – The Internal Audit Plan for April to September 2017

Appendix C – Protocol with Services for Delivery of the Approved Internal Audit Plan

**Appendix A – Internal Audit Resources (Audit Days) for April to September 2017**

Description	2015/16
Days Attendance at Work (Net of Public Holidays, Annual Leave and Sickness Allowance)	477
Less: Time on Other Non-Audit Activity (Team and Other Meetings, Training, Personnel and Other Management Tasks)	(50)
Days Available for internal audit activity	427
Less: Time on 'Core' Audit Work (Follow-Up, Strategic Audit Planning, Supporting the Audit Committee, Development of Policies & Procedures, Supervision and Quality Assurance)	(87)
Grant certification, supporting the National Fraud Initiative and IJB audit work	(50)
Allocation of resources for unplanned work, ad-hoc advisory work, investigations and Counter-Fraud and Corruption	(43)
<b>Days available for allocation to specified assignments</b>	<b>247</b>
Equivalent Assignments	14
Anticipated externally delivered assignments	1
<b>Total assignments included within the 2017/18 Internal Audit Plan</b>	<b>15</b>



## Appendix B – The Internal Audit Plan for April to September 2017

### Internal Audit Assignments:

Service	Division	Title	Indicative Scope	Internal Audit Priority rating	Total days	Quarter
Corporate	All Services	Management of Contracts	To review the adequacy and effectiveness of the management of contracts	High	30	1
Corporate & Democratic Services	Corporate IT	Northgate Housing	To ensure the adequacy of the framework for the Northgate Housing system.	High	*	2
Education & Children's Services	Education Services	Financial Management of Schools – Secondary Schools	To review arrangements in place for the financial administration of 2 secondary schools.	Medium	20	1
Health & Social Care Partnership	Adult Social Work and Social Care	General Outcome Focussed Assessment	To provide assurance over the effectiveness of the process improvements being identified for the assessment of outcomes.	High	25	1&2
Housing & Community Safety	Adult Social Work and Social Care	Partnership Working	To provide assurance over the arrangements for changes in community justice.	High	25	1
Housing & Community Safety	Corporate IT and Revenues	Financial Assessment Follow Up	To undertake an extended follow up of the agreed actions arising from Internal Audit 16-07 Financial Assessment & Charging.	High	10	2
The Environment Service	Performance & Resources	Capital Programme	To provide assurance over the adequacy of arrangements in place to support the delivery of the capital programme	High	30	1
<i>Total days allocated to traditional audit activity</i>					<i>140</i>	

Consultancy Assignments:

<b>Service</b>	<b>Division</b>	<b>Title</b>	<b>Indicative Scope</b>	<b>Internal Audit Priority rating</b>	<b>Total days</b>	<b>Quarter</b>
Corporate & Democratic Services	Finance Division	IR35	To provide advice regarding the roll-out of processes to ensure compliance with legislation regarding contractors' self-employed status.	Medium	5	1
Corporate	All Services	Corporate Risk Management	To support Services with embedding adequate arrangements in line with the approved risk management policy and strategy.	High	25	Ongoing
Education & Children's Services	Children & Family Services	Child's Plan	To provide assurance over the arrangements in place for the implementation of the Childs Plan in line with requirements arising from the Children and Young People (Scotland) Act 2014	Medium	15	1
Corporate	Corporate & Democratic Services	ALEOs	To provide resources to ensure that there is an appropriate governance framework for the ALEOs	High	20	1&2
Education & Children's Services	Whole Service	New process development	To provide a resource to support Education & Children's Services in developing processes for the implementation of new legislation	High	7	Ongoing
Corporate	Various	Transformation	To provide resources to support the transformation agenda	High	5	Ongoing
Corporate	Legal & Governance Services	Corporate Governance	To provide resources to support and challenge the annual governance process.	Medium	20	Ongoing

Service	Division	Title	Indicative Scope	Internal Audit Priority rating	Total days	Quarter
Corporate & Democratic Services	Community Planning, Strategic Commissioning and Organisational Development	Community Planning	To act as a 'critical friend' and contribute to the governance framework for the development in relation to community empowerment.	High	10	Ongoing
<i>Total days allocated to planned consultancy audit activity</i>					<i>107</i>	
<b>TOTAL AUDIT DAYS</b>					<b>247</b>	

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

### Protocol with Services for Delivery of the Approved Internal Audit Plan

This document lays down the principles for the delivery of Internal Audit within Services to ensure the delivery of the 2017/18 Internal Audit Plan.

### Approval of the Internal Audit Plan

The Internal Audit Plan 2017/18 will be submitted to Audit Committee for approval on 22 March 2017. In support of the delivery of the Internal Audit Plan on time and to budget, it is essential that Services interact appropriately with the Internal Auditors undertaking the audit assignments, from initial discussion of the original brief, through to the agreement of the Final Report and subsequently undertaking the agreed actions on time.

### Key dates

For information, the following are key dates for the Internal Audit process:

4 April 2017:	2017/18 Internal Audit Plan considered by the Executive Officer Team
18 April 2017:	2017/18 Internal Audit Plan considered by Audit Committee
31 May 2017:	All Heads of Service will have been consulted on a more detailed scope of assignments in areas on which they lead.

### Requirements of the Audit Process

In order to ensure that the process is managed appropriately:

1. Heads of Service will be consulted on the drafting of the Assignment Briefs prior to the end of May 2017.
2. The Assignment Brief will be issued to Directors, relevant Heads of Service and Service Management as appropriate immediately prior to the commencement of each audit.
3. Once the audit has commenced, it is the responsibility of the Head of Service to ensure that staff are made available to facilitate the audit process. The Internal Auditor will provide an indication of the likely timeframe for testing and for the draft report to Senior Managers once the assignment brief has been issued. The Assignment Brief will detail the anticipated meeting of the Audit Committee which will consider the Final Report.
4. Once fieldwork has been completed, the factual accuracy will be confirmed and a draft report will be issued to managers in the area being audited, along with other relevant parties, for discussion of any potential actions arising from the findings detailed in the report.
6. Once the report has been through a final quality assurance review in Internal Audit, the Draft Report will be issued to Managers and Heads of Service in order to develop an action plan to mitigate the issues

raised by the audit. In some cases, Service Managers may have provided responses and where this is the case, these actions will be included within the report. It is management's responsibility to ensure that the action plans are achievable within the timeframes stated within the report.

7. It is imperative that reports are dealt with promptly to ensure that the weaknesses highlighted in the report can be identified timeously for appropriate remedial management action. As such, responses from Heads of Service and Service Managers are to be provided to the relevant Internal Auditor as soon as possible and at least within 10 working days of the issue of the draft report.
8. Once the response has been received and clarifications have been sought to resolve any issues raised, the draft Final Report will be issued to Directors for their information prior to issuing the report as a Final Report.

### **Undertaking Agreed Actions**

In order for Internal Audit to be effective, to deliver a Service which adds value to the organisation and feeds into the Annual Governance Statement, it is necessary for Senior Managers and Chief Officers to engage positively with the entirety of the internal audit process. This process includes addressing the agreed actions arising from the audit report completely and on time.

Internal Audit undertakes a systematic review of all actions agreed in internal and external audit reports to ensure that action plans are completed on time and in full. This 'follow up' process takes place in line with the Audit Committee timetable and supports the work of the Audit Committee. The Audit Committee is informed of those actions which have not been completed and are provided with an update on the progress of these outstanding actions.

Internal Auditors will contact nominated officers within the Services to ascertain the progress of actions which are due to have been completed. It is the responsibility of Services to respond promptly to such requests for information and to provide the previously agreed evidence as part of the response. Where the actions have not been completed as agreed, the Service must provide an explanation for the delay, an update on progress being made with the implementation of the action, a plan to implement the action as soon as possible and a revised date for completion. On occasions, the agreed action may no longer be required or appropriate. Where this is the case, a detailed explanation of the reasons must be provided to Internal Audit for their assessment.

It is Internal Audit's responsibility to arrive at a view, based on the evidence provided, as to whether the action has been fully completed and the control issues raised have been appropriately dealt with. Any issues will be discussed with the Service prior to an opinion being formed.

## **Feedback**

Any feedback on the audit process is welcome. Please contact the Chief Internal Auditor, Jackie Clark, on 01738 475524 or by email at [JClark@pkc.gov.uk](mailto:JClark@pkc.gov.uk)