

## **AUDIT and GOVERNANCE COMMITTEE – 26 APRIL 2017**

### **Internal Audit Strategy and Internal Audit Plan for 2017/18**

#### **Report by the Director of Finance**

#### **Introduction**

1. This report presents the Internal Audit Strategy and Internal Audit Plan & Counter Fraud Plan for 2017/18.

#### **Background**

2. The Accounts and Audit Regulations 2015 state that the Council needs to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control in accordance with the proper internal audit practices; these are defined as the Public Sector Internal Auditing Standards 2013, updated March 2017.
3. The Public Sector Internal Auditing Standards defines “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
4. The Chief Internal Auditor is required to provide an annual report on the System of Internal Control which is used to inform the Council’s Annual Governance Statement. In providing this opinion we are required to review annually the financial management, risk management and governance processes operating within the Council. This includes reviewing internal control systems for key processes on a risk basis.
5. The Internal Audit Annual Plan has been drafted however will evolve and needs to be dynamic and subject to amendments / responsive to organisational change and resulting emerging risks during the year.

## Audit Planning Methodology

6. To enable the internal audit activity to be in line with the organisation's priorities and objectives, the Internal Audit Plan has been produced with reference to the Corporate and Directorate Risk Registers and in consultation with our key stakeholders, including other assurance providers. As part of the annual planning process the Chief Internal Auditor meets with each of the Strategic Directors, Directors, Deputy Directors, Finance Business Partners and the Director of Finance. This provides crucial insight and intelligence into the strategic and operational priorities of the organisation. Quarterly meetings with each of the Directorate Leadership Teams are attended to ensure the plan is kept under continuous review. The plan will also be reviewed quarterly with reference to the risk registers, and presented to the Audit and Governance Committee for consideration and comment. This ongoing review and insight enables the audit plan to be flexible to meet any changing assurance needs and risks of the organisation.
7. Counter-fraud remains a responsibility for Internal Audit to lead on, and in 2017/18 this will continue to be focussed on overseeing the investigation of NFI data matches, and responding to referrals of suspected fraud and financial irregularity. Internal Audit will continue to work in collaboration for proactive counter-fraud, and reactive investigation being delivered by Oxford City Council Investigation Team.
8. The Audit and Governance Committee will receive a quarterly report, including a status update on the approved work plans, and a summary of the outcomes of completed audits.
9. The Audit and Governance Committee will continue throughout 2017/18 to gain assurance through reports from Senior Management on key areas such as Fit for the Future (transformation programme), the Hampshire Partnership and the Finance Improvement Plan.
10. The Southern Internal Audit Partnership provides annual assurance to Oxfordshire County Council on the adequacy and effectiveness of the framework of governance, risk management and control from the work carried out by the IBC. Individual audit reports on the IBC key financial systems are shared with the Chief Internal Auditor, Director of Finance and Assistant Chief Finance Officer (Assurance). An overall statement of assurance report is produced and presented to the Audit and Governance Committee each year.
11. The Chief Internal Auditor is a member of the Corporate Governance Assurance Group, which supports the monitoring and development of the assurance framework and production of the Annual Governance Statement. This includes review of the key governance areas through the Corporate Leads.

12. The Chief Internal Auditor continues to attend the Counties Chief Auditor Network (National Group) and also the Midland Counties and Districts Chief Internal Auditors Group to enable networking and to share good practice. This contributes to the internal audit planning activity.

## **Internal Audit Resourcing**

13. The Internal Audit Team for 2017/18 comprises of the following resources:

Gross days	=	1782
Less Overheads & Non Chargeable Days	=	342
Chargeable days available	=	1440

14. There is a reduction of available chargeable days from 2016/17 (1580) to 2017/18 (1440) of 140. This is due to the Compliance Officer's secondment to the Income and Banking Team which is currently still continuing and in the process of being made permanent.
15. As reported previously to the Committee the Compliance Officer's secondment which was in place from October 2016 has not had any material impact on the delivery of the internal audit plan as this post previously undertook compliance activities rather than main audit plan work and also the Trainee Auditors have delivered more audit activity as they develop, with less supervision. As part of Finance Fit for the Future, resources across Finance are currently being reviewed, including Internal Audit and also the wider assurance roles. This post and delivery of compliance based assurance will be reviewed as part of that.
16. There will also be a six month maternity leave absence of one of the Principal Auditors during 2017/18, this would be a further reduction of approximately 80 chargeable days. However the chargeable days available reported in the table below have not been reduced as current discussions are being held with an external provider, with a view to covering the shortfall in days with a secondment arrangement.
17. During 16/17 there was a significant overrun for the completion of the Internal Audit Plan from 15/16 due to the additional time invested in undertaking the key financial systems audits. Approximately 150 chargeable days were spent during 16/17 on the 15/16 plan. However the team have successfully delivered the plan for 16/17 by the end of March with a minimal overrun into the first two weeks of April for finalisation of reports and therefore more chargeable days are therefore available for 17/18 planned work than in previous years.
18. The funding available for Counter Fraud work continues into 17/18. During 16/17 the Oxford City Investigation Team concentrated their counter fraud activities on the Single Person Discount Review, for 17/18 there is now an

opportunity to develop the working relationship and for them to deliver proactive fraud work for OCC. This will enable the Senior Auditor to continue to deliver more chargeable audit days, without impacting on the counter fraud activity.

	FTE	Chargeable days available	Chargeable days - audit assignment	Chargeable days - non assignment	Chargeable days - Counter Fraud
Audit Manager (Interim CIA)	0.7	140	60	60	20
Principal Auditor	0.8	160	155	5	0
Principal Auditor (maternity leave for 6 months - look to cover with external resource so that same level of chargeable days are available)	0.8	160	155	5	0
Senior Auditor (Fraud)	1	200	120	0	80
Compliance Officer (currently seconded)	0.8	0	0	0	0
Auditor	1	200	170	0	30
Auditor	1	200	170	0	30
Team Administrator	0.8	80	0	80	0
I.T Auditor	0.5	100	95	5	0
Oxford City Council Investigation Team	1	200	0	0	200*
<b>Total</b>		<b>1440</b>	<b>925</b>	<b>155</b>	<b>360*</b>

\*These days do not include the days that the City Investigation Team will also spend on the 17/18 SPD work.

*Overheads:*

This time is for bank holidays, annual leave, special leave, training, contingency for sick absence, and recruitment.

*Non Chargeable Days:*

The non-chargeable days are for non-audit related activity, including administration time, staff appraisals, 1:1's and departmental work.

*Chargeable days - non audit assignment:*

These are days not attributed to planned audit activity, such as the Chief Internal Auditors management days, admin support for actual audit work, preparation of the audit plan, operational planning, reports for the AWG and Audit Committee, attendance at Directorate Leadership Teams meetings and corporate assurance groups, External Audit liaison and follow up on implementation of agreed management actions.

## **2016/17 Internal Audit Plan**

19. Appendix 1 sets out the annual Internal Audit plan for 2016/17.

## **2016/17 Counter Fraud Plan**

20. Appendix 2 sets out the Counter-Fraud plan for 2016/17.

## **RECOMMENDATION**

**21. The committee is RECOMMENDED to:**

- (a) Approve the Internal Audit Strategy for 2017/18 and 2017/18 Internal Audit Plan; and,**
- (b) Approve the 2017/18 Counter-Fraud Plan.**

LORNA BAXTER  
Director of Finance

Background papers: None.  
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## APPENDIX 1: 2017/18 INTERNAL AUDIT PLAN

<b>PEOPLE DIRECTORATE, including Adult Services, Childrens Services &amp; Public Health</b>			
<b>SERVICE</b>	<b>AUDIT</b>		<b>PLANNED QTR START</b>
People	Safer Recruitment	<p>A review of compliance with Safer Recruitment policies and procedures across both Childrens and Adults. The scope will also consider access to vulnerable Children and Adults across the other directorates.</p> <p>The audit will also look to review the end to end processes for recruitment, working with the Hampshire Internal Audit Staff providing combined assurance.</p>	Q2
People	Transitions - from Childrens to Adults Service	A review of the transitions process between Childrens and Adults services.	Q4
Adults	Payments to Residential and Home Support Providers	The audit will provide assurance over the accuracy and integrity of the payments processes in place for payments to residential and home support providers.	Q1
Adults	Client Charging (including ASC debt)	This audit provides assurance over the accuracy, integrity and timeliness of client charging. The scope of the audit will also include review of the processes in place for the management of Adult Social Care debt.	Q4
Adults	Personal budgets including Direct Payments	The audit will follow up on the actions from the 16/17 audit and provide assurance around the personal budget and direct payments processes.	Q4
Adults	Mental Health	The audit will follow up on the actions agreed within the 2016/17 audit and the scope will be expanded to also review social work practice and recording.	Q3
Adults	Adult Mental Health Practitioner Service	The AMHP was formally managed via a separate day service and also the Emergency Duty Team. From April the service will be provided by one team 24/7. The audit will provide assurance around the governance,	Q2

		operating and financial processes within the new service.	
Childrens	Thriving Familes - Grant Claims	The conditions of the grant claim require Internal Audit testing and sign off of each claim submitted.	Q2 & Q4
Childrens	CEF Contract Management	The audit will look to review the contract monitoring arrangements in place, including payments, where contracts are managed within Childrens Services	Q3
Childrens	Fostering Service	The audit will provide assurance on the governance and operating processes within the service. It will also follow up on the payments audit undertaken in 2015/16.	Q2
Childrens	EDT	Following a review and re-structure, EDT will be managed by Childrens from April 2017 (and no longer include AMHP). The audit will provide assurance around the governance, operating and financial processes within the new service.	Q2
ICT / Childrens	Childrens Social Care IT System Replacement	A review of the implementation of the new system, including design of key security controls. This is a key corporate system, holding sensitive children and young person's information.	Q3
Schools	Thematic Review	This will be a combined audit / proactive fraud review undertaken across a sample of schools. Scope to be agreed.	Q3
Public Health	Combined Contract Management Audit / Counter Fraud Review	The audit will look to review the contract management arrangements in place, including assurances over the accuracy of payments made.	Q2
<b>COMMUNITIES DIRECTORATE, including Environmental Operations, Strategy, Infrastructure &amp; Planning and Community Safety &amp; Fire and Rescue.</b>			
<b>SERVICE</b>	<b>AUDIT</b>		<b>PLANNED QTR START</b>
Communities & Resources	Capital Programme - including follow up of 16/17 audit findings	The scope of the audit will be agreed with the Strategic Director of Communities and the Director of Finance, however will include follow up of the 16/17 audit	Q3

		findings.	
Communities	S106	This audit was deferred from the 16/17 plan. It will provide assurance over the application, receipt and dissemination of S106 funding.	Q1
Communities	Supported Transport	The scope of the audit will be agreed with the Director, however will include assurance over the management of referrals into the service and financial processes, such as payments to the providers.	Q2
Communities	Research and Innovation	The audit will provide assurance over the governance, operating and financial processes within the service.	Q3
Communities	Highways Contract Payment - follow up	The audit will follow up on the payments audit completed in 16/17, following the introduction of the new system.	Q3
<b>RESOURCES DIRECTORATE, including Finance, HR, Law &amp; Governance, Policy and Customer Experience</b>			
<b>SERVICE</b>	<b>AUDIT</b>		<b>PLANNED QTR START</b>
Finance	Pensions Administration	An annual audit to test the key controls providing assurance that members' records are accurately maintained, and that payment through the pension's payroll are accurate and made on a timely basis to legitimate pensioners only.	Q3
Finance	Pensions Fund	An annual audit to test the key controls providing assurance that the pensions fund is being properly managed, with funds invested securely maximising investment opportunities.	Q3
Finance	Accounts Receivable	To provide assurance over the key control processes operated by OCC to ensure that debtor income is identified, recorded and collected in a timely and efficient manner. Hampshire Internal Audit provides separate assurance over the IBC operated controls and processes.	Q4



Finance	Payroll	To provide assurance over the key control processes operated by OCC to ensure that payments are accurate, timely and paid to legitimate employees only. Hampshire Internal Audit provides separate assurance over the IBC operated controls and processes. The audit will include review of compliance with the new IR35 regulations.	Q4
Finance	Purchasing / Procurement (including pre-paid cards)	To provide assurance over the key control processes operated by OCC in respect of the different purchasing and procurement methods. Hampshire Internal Audit provides separate assurance over the IBC operated controls and processes. For 17/18 the scope will also include the introduction of pre-paid cards.	Q3
Finance	Feeder systems	The audit will provide assurance that there are adequate and effective controls in place to ensure the accuracy and integrity of data being transferred from a sample of feeder systems to SAP.	Q1
Finance	Insurance	The Insurance Team is implementing a new I.T. system this year. The audit will provide assurance around the governance, operating and financial processes within the service.	Q3
Finance / Corporate	Grant Certification	There are several requests made through the year for Chief Internal Auditor sign off of grant certifications.	Q1- Q4
Finance / Corporate	Security Bonds	The audit will review the controls over the validation and monitoring of Security Bonds which are required when the Council enters into contracts, providing benefits such as land or property in return for delivery of outcomes by the contractor.	Q2
Corporate	Contract Management System	The audit will review the governance frameworks in place for Procurement and Contract Management, including the implementation and embedding of the new e-Contract & Supplier Management System.	Q3

Corporate	Programme Management Office	The audit will review the newly established Programme Management Office, which is responsible for monitoring all programmes and projects within the Council, ensuring projects are guided to successful completion, applying a strong project management discipline, and is line with the priorities of the Council set via the Transformation Board.	Q3
Corporate / ICT	Fit for the Future - Digital First Platform	A review of the programme structure and delivery plan for the Digital First Platform. Digital First is a key component of the Fit for the Future work. The audit scope will also include review of the associated procurement and payments processes.	Q2- Q4
HR / Corporate	Sickness management	The audit will provide assurance over the key control processes in place to ensure compliance with sickness management policies and procedures.	Q1/Q2
HR / Corporate	Establishment control / HR data	The audit will provide assurance over the key control processes in place to ensure the accuracy of establishment and HR data.	Q1/Q2
HR / Corporate	Recruitment	See entry under People Section of Audit Plan. As part of the safer recruitment audit planned to be undertaken across Childrens and Adults, the scope has been extended to work with Hampshire Internal Audit Team and provide combined assurance over the end-to-end recruitment processes.	See above
ICT	Cyber Security	To ensure there are adequate and effective management and technical controls in place to protect against cyber-attacks.	Q2
ICT	Disposal of Equipment	To evaluate the controls over the disposal of ICT equipment, including the secure wiping of data. This will include follow up of the 2015/16 audit. As part of the Windows 10 project it is anticipated that a large volume of hardware will be disposed of.	Q1

ICT	PSN compliance (Public Services Network)	To ensure that the PSN Code of Connection (CoCo) requirements are being met.	Q2
ICT	Mobile Computing	To review the security of data held on mobile devices, such as tablets, laptops and smartphones.	Q1
ICT	ICT backup and recovery	To review the procedures and processes for taking backups of corporate data and for testing those backups.	Q3
ICT	ICT incident management	A review of how incidents reported to the IT service desk are managed and monitored through to resolution. A new IT service management system is being implemented in 2017 and will be supported by new processes and workflows.	Q3
ICT / Childrens	Childrens Social Care IT System Replacement	See entry under Childrens Audit Plan Section	See above

## **APPENDIX 2: 2017/18 COUNTER-FRAUD PLAN**

<b>Activity</b>	<b>Planned Qtr Start</b>
Review and update of fraud risk register. Identification of new fraud risk areas.	Ongoing
NFI 2016 match - review and investigation of data matches	Q1
Reactive investigations - continued from 2016/17 plus new referrals.	Ongoing
Fraud awareness sessions.	Ongoing
Proactive Fraud Review - Travel and Expenses	Q1
Proactive Fraud Review - Procurement Cards	Q1
Combined thematic audit / proactive fraud review - Schools	See audit plan entry
Combined contract management audit / proactive fraud review - Public Health	See audit plan entry
Continue with development of working arrangements with the City Council for Counter Fraud to include: <ul style="list-style-type: none"> <li>- Single Person Discount Review (including extending to other reliefs/discounts)</li> <li>- Support with the NFI 2016 data match (focus on areas which have previously returned positive results)</li> <li>- Support with reactive investigations</li> <li>- Development of a plan of proactive fraud reviews, potential areas for 17/18 include Procurement, Direct Payments, Deprivation of assets/Non declaration of income and Insurance.</li> </ul>	Q1 - Q4