

PART 1 - PUBLIC

---

**Decision Maker:**      **Audit Sub Committee**

**Date:**                      **8th March 2012**

**Decision Type:**      Non-Urgent                      Non-Executive                      Non-Key

**Title:**                      **INTERNAL AUDIT PLAN 2012/13**

**Contact Officer:**      Luis Remedios, Head of Audit  
Tel: 020 8313 4886      E-mail: luis.remedios@bromley.gov.uk

**Chief Officer:**              Doug Patterson Chief Executive

**Ward:**                      All

---

1.      Reason for report

This report informs Members of internal audit plan for 2012-13.

---

2.      **RECOMMENDATION(S)**

**Members are asked to comment on the Internal Audit Plan for 2012-13.**

### Corporate Policy

1. Policy Status: Existing policy.
  2. BBB Priority: Excellent Council.
- 

### Financial

1. Cost of proposal: N/A
  2. Ongoing costs: Recurring cost.
  3. Budget head/performance centre: Internal Audit
  4. Total current budget for this head: £616,250 excluding the benefit fraud partnership costs but subject to reduction.
  5. Source of funding: N/A
- 

### Staff

1. Number of staff (current and additional): 10.7FTE currently
  2. If from existing staff resources, number of staff hours: 302 days per quarter
- 

### Legal

1. Legal Requirement: Statutory requirement. Accounts and Audit Regs 2011
  2. Call-in: Call-in is not applicable.
- 

### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 180 including Chief Officers, Head Teachers/Governors
- 

### Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments: None

### 3. COMMENTARY

3.1 The current CIPFA *Code of Practice for Internal Audit* defines Internal Audit as:

- *'An assurance function that provides an independent and objective opinion to the organisation on risk management, control and governance by evaluating their effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources'*

3.2 The purpose of the Internal Audit Plan is to:

- Optimise the use of audit resources available, given that these are now very limited
- Identify the key risks facing the Council to achieving its objectives and determine the corresponding level of audit resources
- Ensure effective audit coverage of high risk areas and a mechanism to provide Members, governors, head teachers and senior managers with an overall opinion on the auditable areas and the overall control environment
- Add value and support senior management in providing effective control and identifying opportunities for improvement
- Supporting the Council's nominated Section 151 Officer
- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations 2011.
- Reviewing Value for Money arrangements for designated audits in the plan where possible.

3.3 The Audit Plan coverage is largely aimed at:

- The Chief Executive and Directors
- Other Managers throughout the Council
- Members and in particular those of the Audit Sub Committee
- Governors and Head teachers
- External Audit and the Audit Commission

3.4 For the audit plan covering 2012/2013 the methodology is as follows:

3.5 Consultation with Chief Officers, the Finance Director and other senior officers

3.6 Use of the directorate risk registers.

3.7 Limited use of an audit risk methodology questionnaire. This methodology takes into account monetary/financial values for both income and expenditure; volume of transactions per annum; people risk; risk relating to contracted out services; information systems risk; regulatory and compliance risk; operational risk that includes reference to previous audit reports; sensitivity including reputational and strategic risk.

3.8 A number of different ways of working have been introduced such as control self assessment for schools, to streamline the audit process and reduce the audit input as a result of an overall reduction in staff numbers to just 4 FTE's for the Bromley audits. In addition there will be a further 2 FTE's that will carry out audit sold services work totalling about 330 days on behalf of the London Borough of Greenwich and the responsible officer role at currently 10 Bromley Academies. This will generate income in the region of £95K.

3.9 In common with many other Boroughs there has been a significant downsizing of planned audit coverage days from 1208 days to 775 days a drop of 36%.

- 3.10 **Internal Audit and External Audit** - continue to work closely together at Bromley to ensure the Authority's total audit resource is effectively managed and targeted. Bromley's Internal Audit has maintained a recognised standard of competence and has an agreed protocol with External Audit involving the sharing of audit plans and external audit placing reliance on the work of Internal Audit. This assists in keeping the External Audit fee below the Audit Commission benchmark resulting in significant savings to the overall fee.
- 3.11 The plan includes the following audits that are designated fundamental systems where key financial controls need to be covered to allow an opinion on the overall control environment as part of the statutory Annual Governance Statement. These systems include debtors, creditors, payroll, NNDR, pensions, council tax, housing and council tax benefits, treasury management, rent accounts, parking, cash and banking, main accounting system, fixed assets. These are all included in the attached 2012/13 plan – Appendix A.
- 3.12 In order to discharge its responsibility Internal Audit has to focus work on the key fundamental systems and areas of high risk to the Authority to inform the opinion on the control environment in place. These reviews will continue to inform the annual governance statement that will be required at the end of the year. The internal control environment comprises the systems of governance, risk management and internal control.
- 3.13 A risk based approach has been adopted by both External Audit and Internal Audit, seeking to target audit work on key areas appropriate to our respective roles and to maximise integration of our work. The key areas within the Audit Commission Code of Practice where co-ordinated working will continue are ensuring the adequacy of internal financial controls, ensuring standards of financial/business conduct and arrangements to prevent and detect fraud and corruption are in place.
- 3.14 The plan is expected to cover key core deliverables:
- To deliver the statutory requirements of the Accounts and Audit Regulations 2011.
  - To provide ongoing assurance to management on the integrity, effectiveness and operation of the Authority's internal control system.
  - Delivery of the Annual Audit Plan in particular high risk audit reviews.
  - To be responsive to transformational change and service demands.
  - To continue to meet the requirements of Bromley's External Auditors.
  - To further develop our partnership working relationships.
  - To further embed integration of internal audit work with governance and managing risk to produce a clearly coordinated risk-based approach to the audit of business/operational systems across the Authority.
  - To ensure agreed management actions to audit recommendations made are fully implemented in particular the high priority ones.
  - To continue to develop and have a lead in the Borough's corporate governance arrangements including review and production of the 'Annual Governance Statement' to provide assurance on the Authority's governance arrangements and any areas for improvement.
  - To provide an effective reactive corporate counter fraud service in accordance with the Borough's anti fraud and corruption strategy.
  - In conjunction with the London Borough of Greenwich continue to be proactive in counter fraud including delivery of comprehensive fraud awareness for staff in the prevention and detecting of fraud and irregularities.
  - To continue to develop our role and work closely with the Audit Sub Committee.
  - To contribute and support the Value for Money Programme assessment arrangements.

- 3.15 Although the internal audit function plays a critical role in assessing the control environment the conclusion on the statement of control, forming part of the Annual Governance statement, should be considered based on evidence from a number of sources. These include the external auditor's reports; the annual internal audit report, which gives an opinion on the system of financial control; reports from other review agencies, such as Ofsted and direct assurances from management responsible for internal controls in particular areas. These direct assurances will be relied on more frequently as the core internal audit resource has reduced in recent years.
- 3.16 The total number of audit days allocated for corporate and operational departmental audits including schools, time for investigating fraud, monitoring the Greenwich fraud partnership is 775 days. This is a significant reduction compared to last year (1,208 days) as efficiencies and savings have been found through reduced staffing levels and an allowance of 330 days has been made for partnership working with LB Greenwich and sold services to Academies to generate income. We have continued to restrict non productive time such as training, section meetings and administrative duties.
- 3.17 The individual scope and terms of reference for each audit area is finalised at the time of the audit. A summary of the coverage for next year is attached at Appendix A. The final detail will be agreed with Chief Officers and Assistant Directors based on the coverage proposed. There has already been a consultation process and some of the officer comments are reflected within the attached plan.
- 3.18 An approximate contingency of 10% has been built into each directorate to allow for management requests for work, investigations and any unforeseen major issues arising from fundamental control weaknesses identified in audits that requires further testing. This contingency figure is more than last year and will be kept under review. The new arrangement with the Greenwich fraud team will allow more flexibility on the plan as they will take on a number of the investigations that arise.
- 3.19 The table below provides a summary of the main types of reviews to be undertaken.

**Summary of Audit Methods and Techniques**

Audit Method/Technique	Explanation
Planning	A risk based internal audit plan will be created on an annual basis which will incorporate key risk areas within the Council, in line with strategic and operational risk registers, and the Council's Risk Management Policy. Strategically we will aim to review all operational service areas within a cyclical period not exceeding 3 years, while all business critical systems and high risk areas will be reviewed annually.
Risk-based system audits	One of the main ways that Internal Audit will form a view on the overall control system is by carrying out reviews of the component systems and processes established within respective business entities. These are commonly known as risk-based system audits and will allow Internal Audit to assess the effectiveness of internal controls within each system in managing business risks. Thereby enabling a view to be formed on whether reliance can be placed on the relevant system. This approach will enable resources to be used in a more efficient way, while maximising the benefit which could be derived from it
Compliance/regularity/establishment audits	These audits are intended to assess if systems are operating properly in practice. They are typically site-based (establishment) and focus on the propriety, accuracy and completion of transactions made. The term 'site' includes departments, services or devolved units. The audits may focus on specific systems or cover transactions in all major systems. This will also provide information and evidence about the extent, in practice, of compliance with organisational policies, procedures and relevant legislation.
A combination of self assessment and internal audit testing for schools	Internal audit carry out the self assessment audits complemented by audit testing of schools to make sure compliance with the

Audit Method/Technique	Explanation
	schools' financial regulations and to provide an assurance to head teachers and governors.
Key Control Testing	A variation on compliance audit but focusing on a small number of material or 'key' controls that provides assurance on the completeness and adequacy of the Council's accounts. This can provide the basis for external audit to place reliance on the work of Internal Audit. These audits are on the main accounting systems and processes including debtors, creditors, payroll and income.
Procurement Audit	This will be a strategic assessment of the risks associated with the Council's procurement activities and future plans. Concerned with review of and compliance with the Council's corporate procurement strategy and associated management structures and processes, including contract procedure rules. This audit may also consider Value for Money aspects and review of cumulative spends.
Control Risk Self Assessment	Facilitating the review by services of their own risks and controls in a structured way, for example, via questionnaires or workshops. This can serve both the requirements for assurance or as consultancy.
Systems Development Audit	Phased review of developing plans and designs for new systems and processes aimed at identifying potential weaknesses in control during the development stage thus minimising the need for re-working.
ICT Audit	Specialist review of the control of hardware, software and the ICT environment to evaluate fitness for purpose and security of the ICT environment.
Evidence	All audit findings, conclusions and recommendations will be evidenced on file. Relevant details on which findings and recommendations are based will also be supported by evidence held on file within the Internal Audit Unit.
Use of Technology	Internal Audit will employ relevant technology where appropriate when testing systems and when producing working papers and reports. Additionally Internal Auditors will be alert to IT risk in relation to technology utilised within systems under review.

## Regularity Audits including Schools

- 3.20 These audits are undertaken on a rolling cyclical programme, with the frequency of review determined by an assessment of risk, and are designed to ensure the proper administration of the Authority's affairs. They are, in general, Schools and establishment audits where the propriety, accuracy and recording of all transactions, and the proper function of the main systems in operation, are tested by audit staff by means of detailed examination of individual transactions to ensure that each is, valid, properly authorised and legal.
- 3.21 The objective of the audit is primarily to discharge the Finance Director's statutory S151 responsibility but also to provide an assurance to client management on the proper and effective administration of their area of responsibility. This is particularly relevant where the main elements of control are exercised at a local level. The audits will be carried out using a range of standard audit programmes the most common of which is the self assessment standard programme combined with audit testing for schools. The number of days allocated to schools is 60 days (which will cover 15 schools plus time allowed for follow ups) compared to 160 days in 2011/12. This reflects the fact that several Schools including most of the Secondary Schools having chosen to go to Academy status and reduction of audit staffing resources. The figure excludes days provided by Internal Audit for the responsible officer role at 10 Academies.
- 3.22 **Risk-Based Audits**
- 3.23 With this type of audit the auditor's prime role, is to review the internal control system and associated risks and report upon the adequacy of the arrangements in place. This represents agreed best practice from a professional audit service. Conduct of an audit using this methodology will enable us to:

- a) assess how internal controls are operating in a system, thereby forming a view on whether reliance can be placed upon the system
- b) provide management with assurances that systems are adequately meeting the purposes for which they were designed
- c) provide constructive and practical recommendations to strengthen systems and address identified risks
- d) use findings to feed into an overall opinion on the control framework, thereby fulfilling S151 responsibilities
- e) furnish appropriate evidence for External Audit and other review agencies

3.24 The most common use of these types of audit is on the fundamental systems which are required to be audited each year.

### 3.25 **Standards**

3.26 Internal Audit within Bromley remains sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgments and recommendations. Furthermore Internal Audit operates in accordance with the four main ethical principles: integrity, objectivity, competence and confidentiality. In particular:

- All audit staff will make themselves familiar with the strategies, policies and procedures of the Council, in particular the Council's Constitution and Code of Corporate Governance, Financial Procedure Rules, Contract Procedure Rules. Audit planning will be risk based and demonstrate a link to strategic and operational risk assessments.
- Audit also has a comprehensive internal audit manual that acts as a guide for internal auditors.
- The annual audit plan will be reviewed and updated on an ongoing basis to address emerging risks and any significant amendments will be notified and agreed with the Chief Executive and this Committee.
- The Head of Audit will have direct access to the Chair of this Committee and will be available at the Chairman's request. Audit reviews carried out will comply with the CIPFA Code of Practice for Internal Audit and the Head of Audit will review all files to ensure consistency.
- Auditors will aim to complete all reviews within specified timescales to ensure completion of the audit plan. All reports will be reviewed and authorised at the appropriate level before issue.
- A listing of all recommendations raised will be maintained. A summary of the key Internal Audit recommendations posing a high risk will be reported to each Audit Sub Committee.
- A summary of all audit reports giving details of opinion, number of recommendations and the category of priority i.e. 1, 2 or 3 and type of findings will be reported to this Committee as part of the annual audit report.
- Investigations of suspected fraud and irregularity will be carried out in accordance with Council procedures and relevant good practice/legislation. Such investigations will be

undertaken or supervised by staff with relevant knowledge and experience and in liaison with police and other regulatory bodies where relevant. Reference should be made to the Council's Anti-Fraud Corruption Policy and Strategy. Given the level of time spent on fraud and investigations in 2011/12 we have been prudent in allowing for at least 100 days provision for this purpose. This will be supplemented by the availability of the Royal Borough of Greenwich's Internal Audit and Anti Fraud Team's expertise to assist us with any fraud investigation.

- Internal Audit staff will be appropriately qualified and/or experienced. Adequate training will be offered to staff to close any identified skills gap. Allocation of audit tasks will be in line with staff qualifications and experience.
- All audit staff will ensure they conduct themselves in accordance with the Council's Code of Conduct and relevant professional standards and codes of ethics.

#### **4. FINANCIAL IMPLICATIONS**

Some of the findings identified in the audit reports will have financial implications.

#### **5. LEGAL IMPLICATIONS**

- 5.1 Under Section 151 of the Local Government Act 1972 the Authority is required to make proper arrangements in respect of the administration of its financial affairs.
- 5.2 The provisions of the Accounts and Audit Regulations 2011 require the Council to maintain an adequate and effective internal audit function.

#### **6. PERSONNEL IMPLICATIONS**

There will be 4.5 FTE in post (including a proportion of the Head of Audit's time) to carry out this plan.

<b>Non-Applicable Sections:</b>	Policy
Background Documents: (Access via Contact Officer)	None