

**PART 1 - PUBLIC**

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

**Date:**                      **23rd March 2010**

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

**Title:**                      **INTERNAL AUDIT PLAN 2010/11**

**Contact Officer:**      Mark Gibson, Assistant Director Resources (Audit and Technical)  
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**Chief Officer:**              Paul Dale, Director of Resources and Deputy Chief Executive

**Ward:**                      All

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1.    Reason for report

This report informs Members of internal audit plan for 2010-11.

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2.    **RECOMMENDATION(S)**

**Members are asked to comment on the Internal Audit Plan for 2010-11.**

### Corporate Policy

1. Policy Status: Existing policy.
  2. BBB Priority: Excellent Council.
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### 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: £603,000 excluding the benefit fraud partnership costs.
  5. Source of funding: N/A
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### Staff

1. Number of staff (current and additional): 10 FTE
  2. If from existing staff resources, number of staff hours: 380 days per quarter
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### Legal

1. Legal Requirement: Statutory requirement. Accounts and Audit Regs 2006
  2. Call-in: Call-in is not applicable.
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### Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 180 including Chief Officers, Head Teachers/Governors
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### 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 limited
- Identify the key risks facing the Council to achieving its objectives and determine the corresponding level of audit resources
- Ensure effective audit coverage 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 Director of Resources in fulfilling obligations as the Council's nominated Section 151 Officer
- Deliver an internal audit service that meets the requirements of the Accounts & Audit Regulations.

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 2010/2011 the methodology has been revised with the primary focus being on both the corporate and departmental risk registers which have been developed within the departments. Also as in previous years the frequency and timing of internal audit work in Bromley is supported by the assessed audit risk for each system, school or service. These "risk assessments" (high, medium or low) are awarded to each area in the Internal Audit Plan but they will need to be revisited at the conclusion of each audit. An additional key element in the compilation of the plan has been consultation with managers across the Authority. However, a number of different ways of working have been introduced to streamline the audit process and reduce the audit input as a result of an overall shrinkage in staff numbers. These include the use of control self assessment where appropriate and the cyclical approach to a number of key control audits.

3.5 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. There is an annual work programme agreed with the External Auditor. 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, a combined audit approach for key systems and the external audit placing reliance on the work of internal audit. This assists in keeping the external audit fee below the audit commission benchmark.

- 3.6 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 and ensuring standards of financial/business conduct and arrangements to prevent and detect fraud and corruption are in place. Much of this work continues to be reviewed as part of the Use of Resources assessment.
- 3.7 The plan has been formulated with the requirements of the Account and Audit Regulations in mind. In particular that the relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.
- 3.8 In order to discharge its responsibility Internal Audit will need to focus work on the key 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 internal control 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
- 3.9 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 the Audit Commission's inspectors; and direct assurances from management responsible for internal controls in particular areas.
- 3.10 The total number of audit days allocated for corporate and operational departmental audits is 1,553 days. The individual scope and terms of reference for each audit area is finalised at the time of audit. A summary of the coverage for next year is attached at appendix 1. 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.
- 3.11 An approximate contingency of 7.5% has been built in to 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 less 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.

3.12 In summary the plan for 2010/11 has been allocated as follows:

Adult and Community Services	208
Renewal and Recreation	89
Children and Young People	495
Environmental Services	116
Chief Executives	85
Legal and Democratic Services	47
Resources	366
Corporate & VFM	57
Anti-Fraud & Governance	90
<u>TOTAL</u>	1553

3.13 Further time has been allowed for governance and value for money work, updating procedures and practices and adherence to codes of conduct and corporate standards, control advice and guidance and risk management support have also been included into the audit plan, as in previous years. The work on anti fraud and corruption has been separately identified in the plan for 2010-11.

3.14 We have also consulted a number of Authorities about their plans to ensure both best practice and that all areas are covered by the planning process. In addition the audit planning and working practices is informed by the annual peer review process.

### 3.15 Types of audit

#### 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.
External assessment of schools	Internal audit carry out the external assessment of schools to make sure they meet the standards
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.
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**

- 3.16 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.
- 3.17 The objective of the audit primarily to discharge the Proper Officer'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 standard programmes for school. All Bromley secondary schools met the FMSiS after our initial round of external assessments with only one of the schools needing to be reassessed after implementing recommendations made by internal audit.
- 3.18 The Department for Children, Schools and Families DCSF require all schools to be assessed for the Financial Management Standard in Schools (FMSiS) every 3 years. Internal audit currently provide this service. In the interim years, for Secondary schools, internal audit are proposing to revise the testing programme and have devised a methodology which involves some self assessment by staff at schools, some review of information that they have provided to the Schools Finance Team (SFT) and some on site testing of transactions. Secondary schools are now in the second cycle of assessments with only one school not meeting the standard.
- 3.19 We have now come to the conclusion that we could provide a more streamlined approach to our internal audit reviews at secondary schools during 2010/11. We have devised a form similar to the one schools have used to evidence that they have met FMSiS asking for them to provide detail which is backed up by documentary evidence. Our intention is to get schools to complete this prior to a visit. We will also request a copy of a report detailing all financial transactions over the last 12 months so we are able to select a sample for testing. At the same time we will contact SFT for information on returns that the schools have provided to them.

## **Risk-Based Audits**

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

## **Standards**

- 3.22 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.
  - 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 director of Resources and this Committee.
  - The Chief Internal Auditor 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 Audit and Risk Manager 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.



- 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.
- 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 Regulation 6 of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 (both being Regulations made pursuant to the Audit Commission Act 1998) require the Council to maintain an adequate and effective internal audit function.

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

None.

<b>Non-Applicable Sections:</b>	[List non-applicable sections here]
Background Documents: (Access via Contact Officer)	None