

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Wednesday 13 March 2013**

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

Title: **ANNUAL INTERNAL AUDIT PLAN 2013/14**

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Chief Officer: Chief Executive

Ward: (All Wards);

1. Reason for report

This report informs Members of internal audit plan for 2013-14.

2. **RECOMMENDATION(S)**

Members are asked to comment on the Internal Audit Plan for 2013-14.

Corporate Policy

1. Policy Status: Existing Policy:
 2. BBB Priority: Excellent Council:
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Financial

1. Cost of proposal: Not Applicable:
 2. Ongoing costs: Recurring Cost:
 3. Budget head/performance centre: Internal Audit
 4. Total current budget for this head: £553K including fraud partnership costs of £230K
 5. Source of funding: General Fund plus £19K from sold services: administrative subsidy; administrative penalties; prosecution costs.
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Staff

1. Number of staff (current and additional): 6.4FTEs including 0.5 FTE risk management post
 2. If from existing staff resources, number of staff hours: 190 days per quarter
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Legal

1. Legal Requirement: Statutory Requirement Account and Audit Regulations 2011
 2. Call-in: Not Applicable:
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Unable to quantify
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
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 As in previous years the purpose of the Internal Audit Plan is to:

- Optimise the use of audit resources available, given that these are now 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.
- Allow flexibility to take on fraud and investigation work and participate in any proactive work.

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

3.4 For the audit plan covering 2013/2014 the methodology adopted was as follows:

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

3.6 Use of the directorate risk registers and in particular identifying those risks that had a financial impact.

3.7 Limited use of an audit risk methodology questionnaire that has been modified to take into account monetary/financial values for both income and expenditure; inherent risk factors; Internal Audit and other party perception of the service; complexity of the system; period since the last internal audit or outside inspection; service delivery-shared service, in house or contracted out; risk management assessment.

3.8 Identify any areas that would require audit input as a result of legislation changes e.g. Localism Act, issues arising from audits and audit investigations and specific management requests.

3.9 In comparison to last year we are now proposing that the audit coverage for 2013/14 increase from 775 days to 830 days. In comparison to some London boroughs this is still at the lower end of planned coverage. However, there is capacity to buy in services should there be a need,

where for example the level of investigations increase resulting in pressure in completing the plan. The slight increase in the planned coverage days is explained below.

- 3.10 With effect from August 2012 we carried two vacancies as a result of two of our experienced Principal Auditors being appointed to posts in Royal Borough of Greenwich. The savings in carrying these vacancies were offset by a loss of income from RB Greenwich who no longer required audit services. However, the net effect of these vacancies meant a reduction of 40 days on the audit plan. This will be redressed by the appointment of a part time redeployee to Internal Audit resulting in the 55 additional days in the 2013/14 audit plan.
- 3.11 **Internal Audit and External Audit** – we 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 a long standing protocol with External Audit involving the sharing of audit plans and External Audit placing reliance on the work of Internal Audit.
- 3.12 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/revenue budgetary control, and fixed assets. These are all included in the attached 2013/14 plan – Appendix A.
- 3.13 The plan proposed has been risk assessed to ensure that all high risk auditable areas are covered off. Therefore, in order to discharge its responsibility, Internal Audit has to focus work on the key fundamental systems and other 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.
- 3.14 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. Reference to the External Auditor's plan for financial year 2012/13 appears elsewhere on this agenda.

3.15 **Plan coverage**

3.16 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 R B 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.
- Carry out any investigation arising from the current NFI 2012 data matching.

- 3.17 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.
- 3.18 The total planned coverage for 2013/14 of 830 days includes core system audits, operational audits across the directorates, schools (excluding academies), a total of 110 days for fraud and investigative work, work in progress carried forward from 2012/13, provision for advice and support and contingency time of 42 days to cover further management requests or further testing that may be required in the event of initial field work indicating major findings.
- 3.19 The audit plan coverage of 830 days is arrived at after deductions for bank holidays, annual leave including carried forward leave, training including professional post entry training, sick leave, liaison with outside bodies including our External Auditors, management time, time spent in servicing this committee and sold services to academies.
- 3.20 The plan as indicated in Appendix A allocates 271 days to the Resources Directorate to reflect responsibility for key financial systems; 284 days to Education and Care Services to reflect merging of children with adults; 73 days to Environmental Services; 27 days to Renewal and Recreation; 40 days to Public Health given the first full year of assuming responsibility; and 110 days for fraud and investigation work including NFI work and monitoring the partnership agreement with RB Greenwich.
- 3.21 Members of this committee had previously agreed a simple methodology for Internal Audit to use in assessing the value for money arrangements for designated areas covered in the audit plan. The basis of using VfM methodology was agreed by members of this Committee and involves scoring VfM arrangements in a range of 1 – 4, with 1 equating to not met and 4 equating to fully met. In the 2013/14 plan, we have provisionally highlighted the following audits that could be subject to VfM arrangements: Temporary Accommodation; Fostering and Adoption; Parks and Greenspace; and Planning.
- 3.22 The individual scope and terms of reference for each audit area is finalised at the time of the audit. A summary of the audits for 2013/14 is attached at Appendix A, with an indication of probable topics to be covered.

3.23 The table below provides a summary of the main types of methodology 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 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 the Contract Procedure Rules. This audit will 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.
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-

Audit Method/Technique	Explanation
ICT Audit	working. 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 Section.
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. We can also use IT for data matching to identify fraud and overpayments.

3.24 Regularity audits including schools

3.25 These audits are undertaken on a rolling cyclical programme, with the frequency of review determined by an assessment of risk, previous audit findings, management requests 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 there is no impropriety.

3.26 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 65 days (which will cover 10 schools plus time allowed for follow ups and closure audits for up to 12 schools converting to academy status in 2013/14)) compared to 60 days in 2012/13. 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. At management's request we have also agreed to audit those schools that have a change in headship. The plan excludes time allocated to the provision of audit services to academies which is treated separately as part of sold services trading account.

3.27 Risk based audits

The audits proposed in the plan involve identifying key risks within the auditable area and the auditor's role, is to the review the internal control system in place to mitigate these risks. 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

3.28 Standards

3.29 Internal Audit within Bromley continues to remain 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. The reporting lines of the Head of Audit to the Chief Executive, the Audit Sub Committee, the Section 151 Officer who is the Finance Director and updates to the Director of Resources ensures both the independence and impartiality of Internal Audit as well as ensuring a high profile for the service. 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 Internal 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. Updates on progress are provided to both Audit Sub Committee and Chief Officers.
- 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 2012/13 we have allowed for at least 110 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 and in investigating NFI 2012 data matches.

- 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.

3.30 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. Audit staff have been CRB checked and are required to sign off conflict of interest forms.

4. POLICY IMPLICATIONS

None.

5. FINANCIAL IMPLICATIONS

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

6. LEGAL IMPLICATIONS

6.1 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.

6.2 The provisions of the Accounts and Audit Regulations 2011 require the Council to maintain an adequate and effective internal audit function.

7. PERSONNEL IMPLICATIONS

Of the 6.4 FTEs in post there will be 5.4 FTEs who will directly be involved in carry out this plan. The 0.5 FTE risk management post and an element of the Head of Audit ‘s time will not be involved in direct audit planned work.

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