

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Wednesday 1 April 2015**

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

Title: **INTERNAL AUDIT ANNUAL AUDIT PLAN 2015/16**

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Chief Officer: Chief Executive

Ward: (All Wards);

1. Reason for report

This report informs Members of the Internal Audit Plan for 2015-16.

2. **RECOMMENDATION(S)**

Members are asked to comment on the Internal Audit Plan for 2015-16.

Corporate Policy

1. Policy Status: Not Applicable:
 2. BBB Priority: Excellent Council:
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Financial

1. Cost of proposal: Not Applicable:
 2. Ongoing costs: Not Applicable:
 3. Budget head/performance centre: Internal Audit
 4. Total current budget for this head: ££660k including £313K fraud partnership costs
 5. Source of funding: General fund, Admin subsidy, Admin penalties, Legal cost recoveries, Provision of sold services to academies
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Staff

1. Number of staff (current and additional): 6.5 FTEs of which 5 FTEs including 0.5FTE for a risk officer are currently in post.
 2. If from existing staff resources, number of staff hours: 208 audit days per quarter will be spent on the 2015/16 audit plan and fraud and investigations plus a further 120 days per annum to be bought in 2015/16 from LB Wandsworth to augment the audit plan but excluding RB Greenwich investigators time.
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Legal

1. Legal Requirement: Statutory Requirement:
 2. Call-in: Not Applicable:
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approximately 150 including Chief Officers, Head Teachers and Governors.
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 The current Public Sector Internal Audit Standards defines Internal Audit as:

'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.'

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.
- Assist External Audit in forming an opinion on the annual audit of the financial statements by placing reliance on the work of Internal Audit

3.3 .Members of this Committee had been informed in March 2015 on progress made against the 2014/15 Internal Audit Plan. There has been some slippage primarily to do with vacancies and investigative work. This is expanded on elsewhere on this agenda.

3.4 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 of maintained schools still under LB Bromley control
- External Audit

3.5 For the audit plan covering 2015/16 the methodology adopted was as follows:

- Consultation with Chief Officers, the Director of Finance and other senior officers.
- Attendance of DMTs where requested.
- Use of the directorate risk registers and in particular identifying those risks that had a financial impact.
- Ensuring that the plan covers all fraud risks as identified in the Audit Commission's 'Protecting the Public Purse'.
- 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.

- Identify any areas that would require audit input as a result of legislation changes, government funding requirements e.g. Troubled Families,
- Issues arising from audits and audit investigations and specific management requests.
- Recognition of the changing structure of this organisation and the drive towards commissioning services.

3.6 In comparison to last year we are now proposing that the audit coverage for 2015/16 decrease from 885 days to 830 days. In comparison to some London boroughs this is believed to be at the lower end of planned coverage. However, as in 2014/15 we are buying 120 days from LB Wandsworth that is included in the above figure and there may be further capacity to buy in services should there be a need, as where for example the level of investigations increase resulting in pressure in completing the plan. The time also excludes days spent on servicing this Committee. We will be carrying forward at least 0,6 FTE as a vacancy in 2015/16 which is the equivalent of 110 days however, this is offset by 90 days saved on sold services no longer being provided to the academies.

3.7 **Internal Audit and External Audit** – we continued to work closely together at Bromley to ensure the Authority's total audit resource is effectively managed and targeted. It is envisaged that this will continue with new external auditors who assume responsibility on the 1st April 2015.

3.8 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 benefits and council tax reduction, treasury management, parking, cash and banking, main accounting system/revenue budgetary control, and procurement. These are all included in the attached 2015/16 plan – Appendix A.

3.9 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 current financial year

3.10 **Audit Plan coverage**

- 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 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 where appropriate the Value for Money Programme assessment arrangements.
- Carry out any investigation arising from the flexible/mortality NFI data matching and through any whistle-blowing.
- Adequate coverage is offered to schools still under LB Bromley responsibility.

3.11 Although the internal audit function plays a critical role in assessing the control environment, the conclusion on the Statement of Internal 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.

3.12 The total planned coverage for 2015/16 of 830 days includes core system audits, operational audits across the directorates, schools (excluding academies), a total of 100 days for fraud and investigative work, work in progress carried forward from 2014/15, provision for advice and support and contingency time to cover further management requests or further testing that may be required in the event of initial field work indicating major findings.

3.13 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.

3.14 The plan as indicated in Appendix A allocates 325 days to the Chief Executives Department to reflect responsibility for key financial systems, IT, Legal, Property Services and HR; 300 days to Education, Care and Health Services including schools; and Public Health; 105 days to Environment and Community Services; and 100 days for fraud and investigation work including NFI work and monitoring the partnership agreement with RB Greenwich.

3.15 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 2014/15 plan, we had provisionally highlighted the following audits that could be subject to VfM arrangements: Temporary Accommodation; Fostering and Adoption; Parks and Greenspace; and Planning. Fostering and Adoption was completed and report to this Committee in November 2014. Temporary Accommodation and Planning is work in progress but Parks and Greenspace we now not proposing to complete given the imminent ongoing changes in the Section. The reduction in resources and the commissioning out of services we are proposing to carry out reviews of VfM arrangements for the following audits— Youth Offending Team and SEN.

3.16 The individual scope and terms of reference for each audit area is finalised at the time of the audit. A summary of the audits planned for 2015/16 is attached at Appendix A, with an indication of probable topics to be covered

3.17 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. This will cover 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.

Audit Method/Technique	Explanation
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 has not been utilised as was previously envisaged due to time input requirements from both auditees and auditors given reducing staff resources.
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 held online. 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.

3.18 Changes that have resulted in input to the 2015/16 plan:

- Allocation of time to cover commissioning agenda that will impact on the plan
- Government requirements e.g. Troubled Families where there is an requirement that Internal Audit review outcomes for grant funding
- Emerging risks that can result in losses through fraud or overpayments.
- Management concerns that could arise hence the need for a small amount of contingency time.
- Transfer of benefit fraud to the DWP –Single Fraud Investigation Service with effect from 1st July 2015 that may have an impact on the plan in respect of the number of days Internal Auditors will need to spend on fraud and investigations.

3.19 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, 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.

3.21 The objective of the audit is primarily to discharge the Director of Finance'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 such as schools. 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 40 days (which will cover 9 schools plus time allowed for follow ups) compared to 60 days in 2014/15. The reduction also takes in to account that closure audits for schools that have converted to academy will now be covered by the Schools Finance Team and the fact that several schools including all but one secondary school have chosen to go to academy status and this is ongoing.

3.22 Risk based audits

The audits proposed in the plan involve identifying key risks within the auditable area and the auditor's role is to 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) provide appropriate evidence for External Audit and other review agencies

3.23 Standards

3.24 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 Director of Finance and updates to the Director of Corporate Services 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 Regulations and 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 2014/15 and NFI 2014 data gathering requirements we have allowed 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 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 finalised Internal Audit reports except those where exemptions apply, are now published

3.25 All audit staff will ensure they conduct themselves in accordance with the Council's Code of Conduct and the Public Sector Internal Audit Standards. Internal 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 FTEs who will be in post there will be at least 5.0 FTEs who will directly be involved in carrying out this plan plus bought in resources from external providers. 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:	Policy
Background Documents: (Access via Contact Officer)	None