

**Decision Maker:**     **AUDIT SUB-COMMITTEE**

**Date:**                 **Tuesday 5 April 2016**

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

**Title:**                 **ANNUAL INTERNAL AUDIT PLAN 2016-17**

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**Chief Officer:**       Chief Executive

**Ward:**                 (All Wards);

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1.   Reason for report

This report informs Members of the Internal Audit Plan for 2016-17.

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2.   **RECOMMENDATION(S)**

**Members are asked to comment on the Internal Audit Plan for 2016-17.**

## 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: £540K including £174K fraud partnership costs
  5. Source of funding: General fund, Admin subsidy, Admin penalties, Legal cost recoveries
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## Staff

1. Number of staff (current and additional): 6 FTE including 0.5 FTE risk officer post
  2. If from existing staff resources, number of staff hours: 209 audit days per quarter is spent on the current audit plan and fraud and investigations with 110 days per annum bought in 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 110 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: Not Applicable

### 3. COMMENTARY

3.1 The current Public Sector Internal Audit Standards which we are required to adopt 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 even more limited as explained later in this report
- 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 2015.
- Reviewing Value for Money arrangements for designated audits in the plan where possible as approved by Members of this Committee.
- 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 will also be informed in April 2016 on progress made against the 2015/16 Internal Audit Plan. There has been some slippage primarily to do with 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 2016/17 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 TEICCAF’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 2016/17 decrease from 830 days to 811 days. (See Appendix A). In comparison to some London boroughs this is believed to be at the lower end of planned coverage. This decrease is primarily to do with the need to make budget savings. The effect of this cut is the deletion of audit services that we currently commission from LB Wandsworth totalling 110 days in 2015/16. We have tried to mitigate some of the reduction by cutting down on time spent with school audits given the number of schools still under council control, reducing time spent on investigations and reducing days estimated for work in progress. We will still have the ability 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.
- 3.7 The vacancy of 0.6 fte that we were holding is being deleted from April 2016. The 0.5 fte post of risk management officer is being deleted from July 2016. However, it is expected that the loss of this post will have a minimal effect on the plan as each department will be expected to maintain its own risk register. Each department will submit information to Internal Audit who will act in a co-ordinating role to service the Corporate Risk Management Group and report risk management developments to this Committee.
- 3.8 The time spent on the plan also excludes days spent on servicing this Committee.
- 3.9 **Internal Audit and External Audit** – we continued to communicate with the outgoing external auditors at Bromley to ensure the Authority's audit resource was effectively managed and targeted. It is envisaged that this will continue with new external auditors who assume responsibility for auditing the 2015/16 accounts shortly. We have met with the External Auditor to confirm that there will be liaison with Internal Audit including access to Internal Audit reports. Their audit plan is on this agenda.
- 3.10 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, temporary accommodation and procurement. These are all included in the attached 2016/17 plan – Appendix A.
- 3.11 **Commissioning**- In addition we have allocated a block of time i.e. 40 days to commissioning. We have had discussions with the Commissioning Board to agree the best use of Internal Audit time. We have identified three areas of work that audit will have an input.
- Health Checks - on those services which are due to be outsourced. An estimate of 10 audit days will be allocated, to include attendance at the Commissioning Board on a needs basis to report on control weaknesses that could be applicable to other contracts. Equally, areas where

good practice has been identified will be reported so that this can be disseminated across the Authority. The health checks will include the feasibility study and business case conducted, with detailed benefits analysis; governance and reporting arrangements; the most appropriate service delivery model has been considered; effective change management and communication plans have been put in place; that there is an effective client management / client operation arrangement in place; property issues have been adequately considered; stakeholder engagement and consultation has been carried out; IT arrangements and processes including security, ownership and processing of data has been addressed; robust contract management arrangements have put in place; an exit strategy / continuity of service has been considered if the contract needs to be terminated; practical and enforceable penalties are written into the contract; outcomes are measurable, with realisation of intended benefits; management of risk; sustainable service delivery; adequate tools are in place to tackle poor performance; robust performance indicators are included in the specification or Service Level Agreement.

- Pro-active analysis- we intend allocating 10 days on analysis of existing contracts which are coming to an end but where a waiver has been submitted, instead of re-tendering the contract; and for those contracts where a Gateway Review should have been carried out, assess if the Gateway Review Process has been carried out and reported as set out in Contract Procedure Rules.
- Client management/ client monitoring – adequacy of the management of the outsourced operation. We intend allocating 20 days on a sample of high value and some medium value contracts which are at various stages of their lifecycle. Audit testing will include checking of contract summary sheets have been submitted and the information recorded is complete, accurate and timely; client contract managers appointed have the right skills and experience to monitor those contracts; training and guidance has been provided for those managing and monitoring contracts; performance related information received and checked is complete, accurate and timely; information on contract performance and risk is reported upwards to the right levels of management ie Assistant Directors, Directors and Members; user satisfaction/complaints are considered as part of the monitoring process; level of defaults or contractor claims; monitoring of “commercial health” of contractor to ensure viability; clarity around roles & responsibilities; visits to clients and monitoring meetings take place and monitoring meetings are minuted setting out any agreed actions; payments to the contractor, penalties and service credits; intended outcomes and benefits identified in the business case or at the start of the contract, including value for money are being monitored i.e. are savings being delivered; penalty clauses are invoked where performance does not meet requirements or breach of contract; where good practice in client management is identified, this is communicated across the Authority; and information recorded correctly on Corporate Contracts Register.

3.12 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.

### 3.13 Audit Plan coverage

- To deliver the statutory requirements of the Accounts and Audit Regulations 2015.
- 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 and 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.

3.14 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 the HM Inspectorate of Probation 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

3.15 The total planned coverage for 2016/17 of 811 days includes core system audits, operational audits across the directorates, schools (excluding academies), a total of 80 days for fraud and investigative work, 45 days work in progress carried forward from 2015/16, provision for advice and support and 75 days contingency time to cover unplanned work such as management requests or further testing that may be required in the event of initial field work indicating major findings. (See Appendix A).

3.16 The audit plan coverage of 811 days is arrived at after deductions for bank holidays, annual leave including carried forward leave, training, sick leave, liaison with outside bodies including our External Auditors, management time, time spent in servicing this Committee.

3.17 The plan as indicated in Appendix A allocates 340 days to the Chief Executives Department to reflect responsibility for key financial systems, IT, Legal, Regeneration and Transformation to include commissioning and HR; 241 days to Education, Care and Health Services including schools; and Public Health; 75 days to Environment and Community Services; and 80 days for fraud and investigation work including NFI work and monitoring the partnership agreement with RB Greenwich.(Appendix A)

3.18 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 2015/16 plan, we had provisionally highlighted the following audits that could be subject to VfM arrangements: Youth Offending Service and SEN. In addition we

had to complete Temporary Accommodation and Planning brought forward from 2014/15. The Youth Offending Service has been completed and is elsewhere of this agenda. SEN is currently work in progress. Due to the further reduction in audit resources and the commissioning out of services we are proposing to carry out two reviews of VfM arrangements for the following audits– Early Years and Residential Placements for Older Persons.

3.19 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 2016/17 is attached at Appendix A, with an indication of probable topics to be covered

3.20 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 pre audit questionnaire and internal audit testing for schools	Internal Audit issue pre audit questionnaire 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

Audit Method/Technique	Explanation
	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. 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	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. We also use IT for sampling.

### 3.21 Changes that have resulted in input to the 2016/17 plan:

- Allocation of time to cover commissioning agenda that will impact on the plan as detailed in paragraph 3.11 above.
- 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 75 days of contingency time.
- Issues arising from the proactive exercises that are ongoing and detailed elsewhere on this agenda.

### 3.22 Regularity audits including schools

3.23 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.

3.24 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 pre audit questionnaire issued to schools combined with audit testing for schools. The number of days allocated to schools is 30 days (which will cover 8 schools plus time allowed for follow ups) compared to 40 days in 2015/16. The reduction also takes in to account that closure audits for schools that have converted to academy are covered by the Schools Finance Team and the fact that we are likely to have about 17 schools in 2016/17 (after the forthcoming conversions) that may still be under Bromley's control.

### 3.25 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. Please refer to paragraph 3.5 on factors that are considered in risk assessing an auditable area. This represents agreed best practice from a professional audit service. Conduct of an audit using this methodology will enable us to:

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

### 3.26 Standards

3.27 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 an 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 Public Sector Internal Audit Standards and 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 2015/16, NFI 2016 data gathering requirements we have allowed for at least 80 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 investigations.
  - 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 on the web.
- 3.28 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 DBS checked and are required to sign off conflict of interest forms.
- 3.29 The Internal Audit plan for 2015/16 was benchmarked to other boroughs in terms of days available, time allocated to fundamental financial systems, operational audits, procurement, schools and IT. Generally given the size of the Internal Audit section in most of the above areas we are just below the average apart from fundamental financial systems where we are above average when compared against 12 other authorities. A similar exercise will be carried out this year for the 2016/17 annual internal audit plan.

**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 2015 require the Council to maintain an adequate and effective internal audit function.

**7. PERSONNEL IMPLICATIONS**

Of the 5.5 FTEs who will be in post there will be at least the equivalent of 5.0 FTEs who will directly be involved in carrying out this plan. An element of the Head of Audit's time i.e. 0.5 FTE will not be involved in direct audit planned work.

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