

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

**Date:**                    **Tuesday 4 April 2017**

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

**Title:**                   **ANNUAL INTERNAL AUDIT PLAN 2017-18**

**Contact Officer:**      Luis Remedios, Head of Audit  
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**Chief Officer:**        Director of Finance

**Ward:**                    (All Wards);

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1.    Reason for report

This report informs Members of the Internal Audit Plan for 2017-18.

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2.    **RECOMMENDATION(S)**

**Members are asked to comment on the Internal Audit Plan for 2017-18.**

## Impact on Vulnerable Adults and Children

1. Summary of Impact: None
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## 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: £469K including £164K fraud partnership costs
  5. Source of funding: General fund, Admin subsidy, Admin penalties, Legal cost recoveries
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## Personnel

1. Number of staff (current and additional): 5.5 FTE
  2. If from existing staff resources, number of staff hours: 2016-17 -811 audit days are proposed to be spent on the audit plan, fraud and investigations – excludes RB Greenwich investigators time.
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## Legal

1. Legal Requirement: Statutory Requirement:
  2. Call-in: Not Applicable:
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## Procurement

1. Summary of Procurement Implications: Some planned audits will have procurement implications
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Estimated number of users/beneficiaries (current and projected): Approximately 100 including Chief Officers, Senior Managers, 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 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 late April 2017 on progress made against the 2016/17 Internal Audit Plan. There has been some slippage primarily due to sickness and investigative work.

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 2017/18 the methodology adopted as in previous years 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 or new areas for coverage where councils are now responsible e.g. Community Infrastructure Levy.
  - 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 2017/18 slightly decrease from 811 days to 800 days. (See Appendix A). Comparison to London Boroughs is difficult given that most have either entered into shared services or externalised the function. In the event of slippage due to the need to undertake unplanned work we have a contingency set aside to buy in services from an outside contractor under a framework agreement that some other London Boroughs also utilise. We are proposing that only 20 days be allocated to school audits given the diminishing number of schools still under Council control. We have also taken in to account that one of our Principal Auditors has been tasked with risk management following the deletion of a part time risk officer post.
- 3.7 The time spent on the plan also excludes days spent on servicing this Committee.
- 3.8 **Internal Audit and External Audit** – we continued to communicate with the external auditors at Bromley to ensure the Authority's audit resource was effectively managed and targeted. Their audit plan is on this agenda.
- 3.9 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 2017/18 plan – Appendix A.
- 3.10 **Commissioning**- As in 2016-17 we have allocated a block of time - 40 days in 2017-18 to commissioning. We have had discussions with the Director of Commissioning to agree the best use of Internal Audit time. We have identified four areas of work where audit will have an input.
- 3.11 Pre Commissioned Health checks where services are due to be commissioned out. The health checks will include the feasibility study and business case conducted, with detailed benefits analysis; due diligence, 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 monitoring / 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 been 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.

- 3.12 Audit of the Contracts Database and how each directorate is using it as a monitoring tool for management information, governance, training and guidance for users. Reviewing the system for recording and availability of contracts within the Council.
- 3.13 Post Implementation reviews – following up on contracts that have been let during 2016/17, in particular Total Facilities Management and Parking Services.
- 3.14 Contract Monitoring- A review of contract monitoring arrangements for a few high value contracts at DMT level, incorporating quarterly project plans, contract register information, meetings with contractors, defaults, complaints, reporting of key performance indicators. To check contracts being held under seal and associated documents.
- 3.15 Within each directorate there will be further commissioning and contract auditing e.g. a further 15 days allocated to follow up on waste services allocated within the ECS plan as shown in Appendix A.

### 3.16 **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 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 1 recommendations.
  - 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
- 3.17 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 financial year.

- 3.18 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 other 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, the Care Qualities Commission 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
- 3.19 The total planned coverage for 2017/18 of 800 days includes:
- core system audits;
  - operational audits across the directorates;
  - Bromley controlled schools;
  - a total of 80 days for fraud and investigative work;
  - 39 days for work in progress carried forward from 2016/17 split to the three directorates;
  - provision for advice and support;
  - 70 days contingency time split to the three directorates 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).
- 3.20 The audit plan coverage of 800 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.
- 3.21 The plan as indicated in Appendix A allocates 335 days to the Chief Executives Department to reflect responsibility for key financial systems, IT, Legal, Regeneration and Transformation to include commissioning and HR; 260 days to Education, Care and Health Services including schools; and Public Health; 125 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)
- 3.22 Review of VFM arrangements**
- 3.23 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.
- 3.24 In the 2016/17 plan, we had provisionally highlighted the following audits that could be subject to VfM arrangements: Early Years and Residential Placements for Older Persons. The audit for Early Years has been carried forward to 2017/18. The costs paid to Providers are based on agreed rates per child, which although set by Bromley are based on guidance from EFA. It is the Parent's decision as to which provider to use and provided that a minimum number of requirements are met, we have to fund the placement. The budget for Early Years is £14,830,560. This is for 2,3, and 4 year old funding. Of this, the revenue ancillary costs are budgeted as £305,860 (mainly salary costs). Direct budgeted expenditure to Early Years providers is £14,317,680, all of which will be directly recovered from the DSG grant. It is therefore considered that a review of VfM arrangements of Early Years would not be useful. The Residential Placements audit was merged with the Central Placements Team audit and is work in progress and we will report on VfM arrangements in 2017/18.
- 3.25 We have carried out the review of VfM arrangements on Special Educational Needs (SEN) brought forward from 2015/16 and reported it to this Committee in July 2016 with a rating of 3

out of 4. Due to the reduction in audit resources we are proposing to carry out two reviews of VfM arrangements for the following audits in 2017/18 – Children with Disabilities and Business Rates NNDR.

3.26 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 2017/18 is attached at Appendix A, with an indication of probable topics to be covered.

3.27 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 compliance with the Council's corporate procurement strategy and associated management structures and processes, including the Contract Procedure Rules.   |

| Audit Method/Technique        | Explanation  |
|-------------------------------|--|
|                               | 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. |

### 3.28 Changes that have resulted in input to the 2017/18 plan:

- Allocation of time to cover the commissioning agenda that will impact on the plan as detailed in paragraph 3.10 above.
- An emphasis on additional time allocated to contract auditing following concerns on contract management and monitoring issues that are expanded elsewhere on this agenda.
- Emerging risks that can result in losses through fraud, overpayments or poor controls.
- Management concerns and potential major audit findings 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

### 3.29 Regularity audits including schools

3.30 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. 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.

3.31 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 20 days (which will cover 5 schools plus time allowed for follow ups) compared to 30 days in 2016/17. 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 now have only 14 schools still under Bromley's control as at the time of writing this report. It is believed that at least 3 schools will convert to academy status in 2017/18.

### 3.32 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

### 3.33 Standards

3.34 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 Section 151 Officer who is the Director of Finance, the Audit Sub Committee, 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.
- A peer review of Internal Audit by another London Borough, resulted in a 'generally conforms' outcome. 'Generally Conforms' means the reviewer has concluded that the relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they

are applied, at least comply with the requirements of the section in all material respects. For the sections and sub-sections, this means that there is general conformance to a majority of the individual statements of good practice, and at least partial conformance to the others, within the sub-section.

- 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 2016/17 and NFI 2016 data matching results, 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

3.35 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.

#### **4. IMPACT ON VULNERABLE ADULTS AND CHILDREN**

The contents of this report have implications for both adults and children in respect of audits that will be undertaken in both children and adults.

**5. POLICY IMPLICATIONS**

None

**6. FINANCIAL IMPLICATIONS**

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

**7. PERSONNEL IMPLICATIONS**

Of the 5.5 FTEs who are 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.

**8. LEGAL IMPLICATIONS**

8.1 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.

8.2 The provisions of the Accounts and Audit Regulations 2015 require the Council to maintain an adequate and effective internal audit function.

**9. PROCUREMENT IMPLICATIONS**

The contents of this report include planned audits that will have implications for procurement relating to contract procedure rules, financial regulations and VFM issues.

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