

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Wednesday 7 March 2018**

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

Title: **ANNUAL INTERNAL AUDIT PLAN 2018/19**

Contact Officer: David Hogan, Head of Audit
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Chief Officer: Director of Finance

Ward: (All Wards);

1. Reason for report

The Public Sector Internal Audit Standards (PSIAS) refer to the need to produce a risk-based Internal Audit Plan. This should take into account the requirement to produce an annual audit opinion and report that can be used by the Council to inform the Annual Governance Statement. The annual audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. The report sets out the approach to producing the draft audit plan and invites comments from Members. In addition the PSIAS require the chief audit executive to review and update the Internal Audit Charter on a regular basis. The revised document is attached and requires Member approval.

2. **RECOMMENDATION(S)**

That the 2018/19 Audit Plan and the revised Internal Audit Charter are approved.

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 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: 2018/19 – 900 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: Further Details
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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): Approximately 100 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 Public Sector Internal Audit Standards 2017 define 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 The UK Public Sector Internal Audit Standards (PSIAS) that apply to central government, local government and the National Health Service in the UK states: ‘The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control’. It has therefore become common practice for heads of internal audit throughout the public sector to provide an annual report with an overall opinion to help the organisation prepare a governance statement. The move towards providing an overall annual opinion means annual Internal Audit Plans must strike a balance between breadth, taking a broad look at governance and risk management and depth, drilling down into specific areas where internal audit can provide valuable insight.

3.3 Each organisation should agree an annual Internal Audit Plan that suits its specific and unique requirements. No formula exists that can be applied to determine the minimum level of coverage. To make an impact the Internal Audit Plan needs to focus upon the most important objectives, which invariably means the most significant or highest priority risks. Where risk management is applied effectively and comprehensively by management the key risks that have been identified become the focus of attention for annual internal audit planning. The refresh of Risk Registers reported to the last meeting of the Committee has provided a useful starting point for planning. Assurance is now required that controls to mitigate those risks are being effectively employed.

3.4 It is not always necessary for Internal Audit to directly audit processes and activities in order to gain assurance about them. There may be other services or departments in the organisation who perform an assurance role, quite often referred to as the second line of defence in the three lines of defence model. By working together and being able to rely upon this assurance Internal Audit can cover more ground in the annual Internal Audit Plan. However, there are some pre-requisites to making this work. In evaluating the effectiveness of internal controls and risk management processes Internal Audit must not rely exclusively on the work of other assurance providers. Internal Audit should always examine, for itself, an appropriate sample of the activities under review.

3.5 The purpose of the Internal Audit Plan is to:

- Optimise the use of limited audit resources
- 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.
- Allow flexibility to take on fraud and investigation work and areas of emerging risk.

3.6 The Audit Plan coverage is largely aimed at:

- The Chief Executive and Corporate Leadership Team
- Members and in particular those of the Audit Sub Committee
- Other managers throughout the Council
- Governors and head teachers of maintained schools still under LB Bromley control

3.7 For the audit plan covering 2018/19 the methodology adopted was:

- Consultation with Chief Officers, the Director of Finance and other senior officers.
- Attendance at DMTs where requested.
- Review of the refreshed Corporate and Directorate risk registers
- Review of Horizon Scanning completed by Mazars on national challenges and opportunities facing local government.
- Review of reports and guidance from the National Cyber Security Centre, Cabinet Office and discussions with managers from ICT and Information Assurance.
- Identifying 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
- 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

3.8 The plan is attached in the document as Appendix A. In comparison to last year we are now proposing that the audit coverage for 2018/19 will increase from 800 days to 900 days. This followed a review of resources reported to Committee in November 2017. 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 is available to London Boroughs. This is also to be used where particular specialist skills might be needed.

3.9 The attached document also details Internal Audit's Strategy and Charter which has been reviewed and updated in compliance with PSIAS. This defines Internal Audit's purpose, authority and responsibility. It establishes its position and clarifies its reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of Internal Audit activities. It covers the roles of audit staff and identifies the nature of professionalism, skills and experience required. It must be regularly reviewed and considered by the Audit Sub-Committee

3.10 The plan is set out differently to those of previous years. A number of reviews that would have previously been included in a particular department/area have been promoted to a corporate area reflecting the nature of corporate risks and recognising that they require actions from across the Council to mitigate them. These risks include the failure to deliver a sustainable

financial strategy and ineffective governance and management of contracts. Information is a critical business asset that is fundamental to the continued delivery of services. Any personal data collected is subject to specific legal and regulatory requirements. Cyber incidents pose an increasing threat. Cyber security is part of the wider activity of information security which is of strategic importance and should be the subject of audit scrutiny. We have put a greater emphasis on ICT security and information governance and assurance. We are proposing that only 15 days be allocated to school audits given the diminishing number of schools still under Council control. We have also taken in to account that we are tasked with risk management following the deletion of a part time risk officer post.

4. IMPACT ON VULNERABLE ADULTS AND CHILDREN

The content of this report will have implications for both adults and children in respect of audits that will be undertaken in both Children’s and Adult’s Social Care

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

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

7. PERSONNEL IMPLICATIONS

Of the 5.5 FTE’s who are in currently in post there will be at least the equivalent of 5 FTEs who will be directly involved in carrying out the plan. An element of the Head of Audit’s time i.e. 0.5 will not be involved in direct audit planned work. In addition to this it is planned to recruit a Trainee Auditor who will undertake apprentice training via the Institute of Internal Auditors. It is not anticipated that this training will start before autumn 2018, and we consider that recruiting at the time individuals are leaving school/university may increase the number of applicants. It is good practice in any case to assume some turnover/vacancy in the plan.

8. LEGAL IMPLICATIONS

- 8.1 Under Section 1 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.

Non-Applicable Sections:	Policy
Background Documents: (Access via Contact Officer)	None