

Decision Maker: **AUDIT SUB-COMMITTEE**

Date: **Tuesday 26 February 2019**

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

Title: **ANNUAL INTERNAL AUDIT PLAN 2019/20**

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.

2. **RECOMMENDATION(S)**

- 2.1 That the 2019/20 Audit Plan is approved.
- 2.2 To note and comment upon the revised assurance opinions and definitions and the priority risk ratings and definitions.

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 Healthy Bromley:
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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: £506k including £165k 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): 6.5 FTE (1 post currently vacant)
 2. If from existing staff resources, number of staff hours: 2019/20 902 audit days are proposed to be spent on the audit plan, fraud and investigations – excludes RB Greenwich 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): 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 follows:

‘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’. Heads of internal audit throughout the public sector provide an annual report with an overall opinion to help the organisation prepare a governance statement. To inform an overall annual opinion means the Annual Internal Audit Plan 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 The Council 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. Up to date Risk Registers provide a useful starting point for planning.

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 2019/20 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 and transforming 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 2019/20 will be 902 days compared to 900 days last year. 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 managed by LB Croydon that is available to London Boroughs. This is also to be used where particular specialist skills might be needed.

3.9 Review of audit assurance levels and recommendations

Our audit assurance levels and recommendations have not been reviewed for a considerable number of years. Since the appointment of a new Head of Audit in May 2017 and the increasing focus on risk, this has prompted us to review how these should be described and defined. It has coincided with observations made recently by the Corporate Leadership Team and several senior managers.

At present, we have four assurance levels which are 'Full', 'Substantial', 'Limited' and 'No assurance'. In practice, 'Full assurance' is not appropriate because we carry out sample testing and can rarely give full or absolute assurance over all the controls and procedures in place.

In the current and previous year we have only used the 'Substantial' and 'Limited' assurance levels. This also creates a dilemma when we have a number of important recommendations resulting from an audit but, overall, neither the 'Substantial' or 'Limited' assurance levels fit comfortably.

We have therefore compared our assurance levels and recommendations with those used by other public and private sector organisations. As a result of our research and following consultation with the Corporate Leadership Team, we intend to use the following new assurance levels and recommendations with accompanying new definitions. These will be used in audits carried out from our 2019/20 audit plan. The colour coding will be introduced to make them more recognisable.

3.10 Assurance level

Assurance Level	Definition
Substantial Assurance	There is a sound system of control in place to achieve the service or system objectives. Risks are being managed effectively and any issues identified are minor in nature.
Reasonable Assurance	There is generally a sound system of control in place but there are weaknesses which put some of the service or system objectives at risk. Management attention is required.
Limited Assurance	There are significant control weaknesses which put the service or system objectives at risk. If unresolved these may result in error, abuse, loss or reputational damage and therefore require urgent management attention.
No Assurance	There are major weaknesses in the control environment. The service or system is exposed to the risk of significant error, abuse, loss or reputational damage. Immediate action must be taken by management to resolve the issues identified.

3.11 We have also taken the opportunity to clarify the definitions of the priority recommendations to ensure they are clearly understood.

3.12 Recommendation ratings

Risk rating	Definition
Priority 1	A high priority finding which indicates a fundamental weakness or failure in control which could lead to service or system objectives not being achieved. The Council is exposed to significant risk and management should address the recommendation urgently.
Priority 2	A medium priority finding which indicates a weakness in control that could lead to service or system objectives not being achieved. Timely management action is required to address the recommendation and mitigate the risk.
Priority 3	A low priority finding which has identified that the efficiency or effectiveness of the control environment could be improved. Management action is suggested to enhance existing controls.

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 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

7.1 Staff in breach of financial rules or procedures or acting inappropriately against the Council's legal and financial interests may be subject to disciplinary or/and criminal investigation.

8. LEGAL IMPLICATIONS

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.

9. PROCUREMENT IMPLICATIONS

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

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