

Committee:	Date:
Audit and Risk Management Committee	4th November 2014
Subject: 2015/16 Internal Audit Planning	Public
Report of: Chamberlain	For Information

Summary

The purpose of this report is to provide the Committee an overview and opportunity to comment on the strategic internal audit plan for 2015/16 prior to the development of the more detailed Annual audit plan for 2015/16.

Whilst many other organisations adopt a 3 year rolling strategic plan, a 5 year risk based plan has been considered to date the most appropriate for the City of London, reflecting a desire for a cyclical coverage of all the main auditable areas of the City's diverse operations. This 5 year plan principle will be reviewed during 2015/16, to enable a revised strategic planning approach to be introduced in 2016/17 in light of any agreed resource reductions arising for the service based review.

This internal audit role is a central element of the City's Corporate Governance framework, as the internal audit work and Head of Internal Audit opinion is a key input to the published Annual Governance Statement and focus for the work of the Audit & Risk Management Committee.

Areas of anticipated focus within the internal audit planned work programme for next year are:-

- Oracle 12
- Major changes to other Financial Systems (e.g. business rates)
- Service Based Reviews
- Revised audit approach to auditing the three City of London Independent Schools
- Commissioning, Partnerships and major service contracts
- IS – contract and performance management arrangements
- Human Resources Processes

VFM and efficiency challenges will be built into each audit review where feasible. This will be achieved through the identification of redundant or duplicate controls, recommending more efficient processes and working closely with the City Procurement Service so that opportunities for procurement savings are maximised.

It will be necessary for the internal audit section to invest some additional time into developing the section over the next 18 months, in response to the efficiency savings required from the service based review and opportunities for developing a more efficient service.

Internal audit will commence its main annual audit planning process in November, by having detailed discussions with Chief Officers with view to

producing a detailed operational audit plan, seeking Audit & Risk Management Committee approval at the 24th February 2015 meeting. This report sets out the resource availability and proposed deployment of audit resources for the anticipated 3345 days available from the 15 FTE internal audit section staff.

Recommendation

The Committee note the report and suggest areas of focus for consideration as part of the detailed audit planning process over the coming months.

Main Report

Background

1. The purpose of this report is to provide the Committee an overview of the resources assumptions, audit planning methodology and likely areas of emphasis in the development of the 2015/16 audit plan.
2. The Head of Internal Audit is required by the Public Sector Internal Audit Standard to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. The risk-based plan must take into account the requirement to produce an annual independent internal audit opinion on the design and effectiveness of the City's governance, internal control and risk management environment.
3. Detailed internal audit planning for 2015/16 will commence in November through a risk review of the audit universe and audit planning consultation with Chief Officers in order to produce an updated 5 year Audit Strategy and Audit plan for the 2015/20 period. Approval for the 2015/16 plan will be sought at the 24th February 2015 Audit and Risk Management Committee meeting. The Committee may wish to suggest areas of audit focus, for risk assessment and consideration as part of the detailed audit planning process.

Internal Audit Planning Process

4. Annually, internal audit conducts a comprehensive risk-based audit planning process to ensure that all areas of the City of London's operations (and external partners, where appropriate) are provided with an appropriate and structured internal audit service to assist in the continuous improvement process.
5. The result of this process is an updated 5 year Audit Strategic Plan 2015-16 which provides the starting basis for the Annual operational audit plan. Whilst many other organisations adopt a 3 year rolling strategic plan, a 5 year plan has been considered to date the most appropriate for the City of London, reflecting a desire for a cyclical coverage of all the main auditable areas of the City's diverse operations.
6. This 5 year plan principle will be reviewed during 2015/16, to enable a revised strategic planning approach to be introduced in 2016/17 in light of any agreed resource reductions arising for the service based review.

7. The principles of risk management are applied throughout the planning process in that the allocation of resources to each audit is considered against the assessed likelihood, frequency and impact of individual risks. The internal audit risk assessment methodology as set out in **Appendix 1**. It has been reviewed so that it is aligned to the new risk management strategy assessment criteria and takes into account financial materiality, reputational risk, current control effectiveness, whether there have been structural, process or system changes and the risk of loss, fraud or abuse of powers.
8. The Internal audit risk assessment which drives the allocation of resources is undertaken at a detailed system level rather than at departmental level. This is because it is necessary to assess the wide variety of risks and system that exist with each Department to ensure an appropriate coverage. **Appendix 3** provides an analysis of the indicative audit days allocation by Department with details of expenditure, income and staffing budgets along with a brief commentary on the factors which drive the audit coverage in each department, of which the level of expenditure and income is only one factor.
9. Whilst the strategic and annual audit plans are initially compiled using risk to assess the areas needing coverage, Chief Officer views are being sought on the focus and scope of audit activity so planned work is more focused on those areas, where internal audit can provide added value to the organisation.
10. Reference is made to Department risk registers in developing the audit plans. Linkages to the Corporate Risk Register will be demonstrated when the detailed annual audit plan is presented in February 2015.
11. External Audit will be consulted on the content of the 2015/16 operational internal audit plan and a number of financial control areas of planned internal audit work are expected to be of particular interest to them in arriving at their own audit opinion on the published financial statements of the City.

Indicative Allocation of Internal Audit Resources

12. Resource assumptions are based upon an audit section complement of 15 FTEs consisting of Head of Audit & Risk Management, 3 Audit Managers, 7 auditors, Corporate Risk Advisor, Anti-Fraud manager, Fraud Investigator, and an apprentice. The assumptions behind this resource analysis are set out in **Appendix 2**. A reasonable level of staff turnover is experienced by the internal audit section. A provision of 200 days for carry forward work has been made, recognising that at the end of the financial year, audit projects will be at various stages of completion.
13. The overall allocation of time from the estimated 3,345 days available is as follows:-

Internal Audit Work allocations for 2015/16	Days	%
- Main Audit Review Work (further indicative analysis by Department in Appendix 3) – (1093 days)		
- Museum of London & London Council SLA – (90 days)		
- Honorary Audits (e.g. Guildhall Club Accounts) – (10 days)		
- Carry forward allocation – (200 days)		

- Follow-up reviews – (130 days)		
- Contingency for additional high priority work– (100 days)	1,623	48.5%
Corporate Risk Management support	214	6.4%
Anti-Fraud & Corruption - investigations and pro-active prevention and policy development	380	11.4%
Advice & Guidance - on risk & controls	70	2.1%
Efficiency Board/EPSC Support	5	0.1%
Audit Planning & Reporting – engagement with senior management, External Audit and detailed update reporting to Members	147	4.4%
Member Committee Support – attendance and support to Audit & Risk Management Committee, and six other Risk/Audit focused committees	136	4.1%
Audit Development – includes further development in use of audit automation and new audit techniques, external networking	142	4.2%
Training	149	4.5%
Staff absences	121	3.6%
Admin Support - staff monitoring/meetings/time recording	358	10.7%
Total	3,345	100%

14. Individual audit reviews within the operational audit plan will be prioritised as either 'Essential', 'Highly Desirable' or 'Desirable'. As risks and priorities change during the year, additional high priority work can be added to the audit work programme displacing some of the desirable activities.

Efficiency and VFM

15. Internal audit will as part of its routine audit work review key control areas, where changes in staffing and processes have resulted from the implementation of efficiency savings, to ensure adequate controls continue to be applied. VFM and efficiency review challenges will continue to be built into each audit review where feasible. This will be achieved through the identification of redundant or duplicate controls, recommending more efficient processes and working closely with the City Procurement Service so that opportunities for procurement savings are maximised.
16. We will identify audit reviews with a primary VFM focus as part of the detailed planning process.
17. The internal audit charter no longer plans to undertake forensic departmental or cross-cutting efficiency reviews reporting to the Efficiency Board, separate from its main assurance work.

2014/15 Areas of audit emphasis within routine audit work

18. The following areas of audit emphasis for next year's cyclical internal audit plan have been identified as follows.
19. **Oracle R12** – this corporate project will result in some significant changes to the internal financial control framework and investment property income collection. Internal audit work in this area will focus on the design and operation of newly established internal controls, with a particular focus on investment property income and an IS/IT application review of Oracle 12, and the system administration.
20. **Major changes to other Financial Systems** – Following the insourcing of Business Rates, the new arrangements will be a priority area for review along with changes in Pension Scheme administration and Corporate Procurement Cards.
21. **Service Based Reviews** - Internal audit will keep a watching brief over the progress of the service based reviews, and plan to undertake a specific review of the programme governance and monitoring arrangements.
22. **Three independent schools** – the internal audit approach to these three institutions will be reviewed, with the intention of developing and undertaking a more standardised key financial controls audit at each of the three schools.
23. **Commissioning, Partnerships and major service contracts** - Adoption of new commissioning, partnerships and major service contract management arrangements, will continue to be a major area of focus. Work undertaken in this area will complement the service based review activity aimed at strengthening the City's contract management capability, with close working and intelligence sharing envisaged with the new City Procurement service..
24. **IS contract and performance management** – Internal audit work will focus on the embedding of the new performance management and security assurance arrangements with the new contractor Agiliysis. Specific work will be focused on the new centralised Police ICT function. Work will also focus on the IS client relationship function and IS project governance.
25. **Human Resources Processes** – assurance work is planned to provide assurance over new standardised HR processes, such as management self-service, and other HR processes, such as safeguarding risks and establishment controls.

Development of the internal audit section

26. It will be necessary for the internal audit section to invest some additional time into developing the section over the next 18 months, in response to the efficiency savings required from the service based review and opportunities for developing a more efficient service.
27. These areas will include the wider application of computer assisted auditing techniques, streamlining the audit closure process, use of more

standardised audit approaches, and exploration of the potential for sharing some resources across London Boroughs.

Conclusion

28. The City of London has a wide range of differing Departments, institutions and services. The Audit Strategy remains to still provide reasonable assurance on key control risks in each department through cyclical coverage, coupled with a focus on VFM and other corporate review areas, including Information Governance, Partnerships and Commissioning, and key change projects.

29. 2015/16 is expected to be a transitional year for internal audit as moves to a different operating model, recognising that there will be a reduced level of internal audit resources from 2016/17.

Appendices

Appendix 1 – Audit Risk Assessment Methodology

Appendix 2 – Internal audit resource assumptions

Appendix 3 - Audit Planning 2015/16 - Indicative Department resource allocation with Budgets and Commentary

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