

Committee(s)	Dated:
Audit & Risk Management Committee	24 February 2015
Subject: 2015/16 Internal Audit Plan	Public
Report of: Head of Internal Audit and Risk Management	For Decision

Summary

The Head of Internal Audit is required by the Public Sector Internal Audit Standards to establish risk-based plans to determine the priorities of 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. This report sets out the proposed internal audit annual plan for 2015/16.

Recommendation(s)

Members are asked to agree the 2015/16 internal audit annual work plan.

Main Report

Background

1. The purpose of this report is to present the internal audit annual plan for 2015/16. A strategic overview of the 2015/16 plan was discussed by the Committee at its December 2014 meeting following which consultation meetings have been held with Chief Officers over the autumn.
2. As of January 2015, Chris Harris, a Partner at Baker Tilly, was engaged as the Head of Internal Audit and Risk Management to cover the secondment of Paul Nagle to an interim role as Head of Finance – Projects for 12 months. Chris is responsible for the delivery of an adequate and effective risk based internal audit service in accordance with professional standards for the practice of Internal Audit.

Current Position

3. The internal audit plan for 2015/16 provides for 1,201 days to deliver internal audit reviews. This currently includes four IT reviews to be delivered externally, the cost of which will be offset by the retirement of the IS Audit Manager. It is also intended to appoint an apprentice through the City's apprenticeship scheme. This number of days is consistent with other public sector organisations of similar size and complexity.
4. Although there are currently two vacancies in the Internal Audit Team in addition to the impending retirement referred to above, it is considered that the existing resources are sufficient to provide adequate audit coverage of corporate and departmental risks. This will be achieved by taking a slightly different approach to delivering the internal audit function as follows:
 - A reduction in the number of individual internal audit reviews to provide a more streamlined and efficient approach for both the internal audit function and auditees. Audits carried out will have larger budgets which should provide an increase in depth and breadth of coverage.
 - More corporate and thematic reviews both within and across departments.
 - The variety of types of reviews has been reduced to ensure more assurance reviews are performed and improve the efficiency of the internal audit process by ensuring a consistent approach.
 - Aligning the internal audit approach with the corporate service based reviews.

Options

5. Currently there is no intention to recruit to the senior auditor and auditor posts. This should generate a net saving of approximately £100,000 in 2015/16, including the savings generated from the retirement of the IS Audit Manager.
6. The delivery and plan of internal audit work will be subject to regular review to determine whether coverage and resources are still adequate and aligned with the City's risks and operations.

The role of internal audit

7. Internal auditing is an independent, objective assurance and advisory activity designed to add value and improve an organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

8. The Internal Audit function reviews the operations of the City. It also supplies the internal audit service to the Museum of London and London Councils under an SLA. It does so in accordance with the Audit Charter which reflects statutory and professional requirements. Implementation of the audit plan helps the City maintain “a sound system of internal control which facilitates the effective exercise of functions and which includes arrangements for the management of risk” (Accounts and Audit Regulations 2011). Proper practices are defined in the new Public Sector Internal Audit Standards which are the professional basis for the operation of the Internal Audit function.
9. Internal audit adds value and improves the City’s operations by promoting a robust control environment, best practice in governance and risk management as well as making recommendations for improvements in operating efficiencies.

Internal Audit Planning and Allocation of Resources Process

10. The Head of Internal Audit is required by the Public Sector Internal Audit Standards 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.
11. Annually, internal audit conducts a risk-based audit planning process to ensure appropriate coverage of the City’s operations (and external partners, where appropriate) is provided.
12. The detailed plan of internal audit work is detailed in **Appendix 1**. It has been presented in four main areas;
 - Corporate and strategic reviews, which mainly address the corporate risks and/or are cross cutting reviews to identify efficiencies in process and good practice that can be shared.
 - Departmental reviews that have been subject to the internal audit risk assessment process and cover some of the areas of concern requested to be reviewed by Chief Officers, including information system reviews.
 - Institutional reviews, which cover the key risk areas of the City’s Institutions (Police, Barbican Centre, Guildhall School of Music and Drama, City of London Freemans School, City of London School and City of London School for Girls). These programmes are also separately agreed with these institutions.
 - Non City Institutional reviews that covers the priority and key financial areas of the Museum of London and London Councils. These programmes are also separately agreed with these institutions.

However, as discussed at the Institutional committees already presented with detailed plans, we have indicated that they may be subject to change.

13. All reviews included in the plan are full assurance reviews that will result in a formal opinion given over the adequacy of risk management and control within the system audited and the extent to which controls have been applied, with a provision also included for follow ups.

14. Resource assumptions are based on an internal audit function complement of 12 FTEs consisting of one Head of Internal Audit and Risk Management, one Senior Audit Manager, three Audit Managers, one Corporate Risk Advisor, five Senior Auditors and Auditors, two Fraud Investigation staff and the requirement to outsource four specialist IT reviews. The recruitment of an Apprentice should assist in providing administrative support and some flexibility in delivering the plan and any ad hoc work.

15. The overall allocation of time is detailed in **Appendix 2**.

Conclusion

16. The internal audit annual work plan will provide Members and management with assurance over the financial control and operational framework in key risk areas. It will also lead to an overall annual opinion on the effectiveness of the City's arrangements for internal control, risk management and Governance.

Appendices

- Appendix 1 – Internal audit annual work plan
- Appendix 2 – Allocation of resources

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