

<b>Committee:</b>	<b>Date:</b>
Audit & Risk Management Committee	15 <sup>th</sup> October 2013
<b>Subject:</b>	<b>Public</b>
2014/15 Internal Audit Planning	
<b>Report of:</b>	<b>For</b>
Chamberlain	<b>Information Decision</b>

### Summary

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.

The purpose of this report is to provide the Committee with an overview and opportunity to comment on the strategic internal audit plan for 2014/15, prior to the development of the more detailed Annual audit plan for 2014/15.

To ensure risk-based audit plans are developed in an effective way, there is a 5 year Strategic Plan which provides the basis for the Annual Audit Plan. 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.

The internal audit function is continually aiming to focus its activities and approach according to the assurance requirements of the City. This has entailed undertaking more strategic reviews, increased focus on VFM and efficiency, and working much closer with senior management, so that its work is more focused/concentrated on those areas where internal audit can provide added value to the organisation. To support this focus, internal audit has responsibility for the corporate risk management support function and supports the efficiency and performance review work of the officer Efficiency Board and member Efficiency & Performance Sub-Committee (EPSC).

The eCombining of the internal audit function and the corporate risk management support role is assisting the City of London in developing a more integrated risk and assurance management approach, with clearer linking of internal audit and other assurance activity to the key strategic and departmental risks faced by senior management. The development of more consistent Departmental Risk Registers, following the roll-out of the Risk Management Handbook, is assisting in the review and development of internal audit plans.

**Comment [NP1]:** Is a 5 year plan still relevant, must organisations adopt a 3 year plan

Internal audit is piloting the use of assurance mapping techniques to provide a holistic overview of assurance coverage of key risks and controls. This will assist in ~~the~~ focusing ~~of~~ internal audit activity, by developing a clearer picture of the scope of other assurance activities, particularly that undertaken by external inspectors or management review activities. It is intended to roll out these exercises out to larger Departments in 2014/15.

Following the Chief Officer customer satisfaction review in the Summer, Internal Audit will be sharing and promulgating more widely, thematic risk and control issues arising from routine audit and investigation work. This thematic reporting will be progressed and refined in 2014/15, to become a regular feature of internal audit work.

The indicative allocation of internal audit resources by audit theme and Department is set out in **Appendix 2** of this report. **Appendix 3** provides information on Departmental spend and income with commentary on factors which ~~impact on~~ affect the audit resources allocation. **Appendix 4 provides information on the Audit Risk Assessment Methodology.**

Areas of emphasis within internal audit cyclical risk based work are:-

- City of London Procurement Service and PP2P transition
- Financial Management
- Major Projects
- Commissioning, Partnerships and major service contracts
- IS – new contract and performance management arrangements
- HR key processes

Additional work is proposed in the following areas:-

- Information Governance
- Departmental Financial Regularity and Probity checks
- Service-Based Reviews

Member's' observations on these areas are sought, as well as suggestions as to other areas of focus that could be considered for risk assessment as part of detailed audit planning process over the next few months.

Internal audit will commence its main annual audit planning process in October, by having detailed discussions with Chief Officers, with view to producing a detailed operational audit plan to present to Chief Officers' Group in January 2014 and seeking Audit & Risk Management Committee approval at the 4<sup>th</sup> March 2014 meeting. This report sets out the resource availability and proposed deployment of audit resources for the anticipated 3451 days available from the 15.6 FTE internal audit section staff.

### **Recommendation**

The Audit and Risk Management Committee note the report and suggest areas

of focus for consideration, as part of the detailed risk assessment and audit planning process over the coming months.

## Main Report

### The role of internal audit

1. Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The control environment comprises the systems of governance, risk management and internal control.
2. The Internal Audit section reviews the operations of all services the City provides, and also supplies the internal audit service to the Museum of London and London Councils under a SLA. It does so in accordance with its Terms of Reference which reflect statutory and professional requirements. Implementation of the audit plan helps the City of London maintain "a sound system of internal control which facilitates the effective exercise of that body's 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 is the professional basis for the operation of the Internal Audit section.
3. 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. To achieve this, the Internal Audit section engages with the City's Corporate and Departmental change programmes, providing expert independent and objective input to emerging issues.

Comment [NP2]: Need to update for PSIAS definition

### Internal Audit Planning Process

4. 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.
5. 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.

6. The result of this process is an updated 5 year Audit Strategic Plan 2014-15 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 is still considered 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.
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 4 was reviewed last year so that it is aligned to the management handbook 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 systems 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. It is now possible to place increased reliance on these risk registers in informing risk assessments for audit planning purposes.
11. Linkages to the Strategic Risk Register will be demonstrated when the detailed annual audit plan is presented in March 2014.
12. External Audit will be consulted on the content of the 2014/15 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.
13. Resource assumptions are based upon an audit section complement of 15.6 FTEs consisting of one Head of Audit & Risk Management, four Audit Managers, one Risk & Assurance Manager, eight auditors and two fraud investigators. The assumptions behind this resource analysis are set out in **Appendix 1**. A reasonable level of staff turnover is now being experienced by the internal audit section, with 2 senior auditors and one senior auditor expected to retire in the current calendar year. Succession planning particularly for specialist IS and Contract and procurement auditors remains a key consideration. Should vacancies arise then, it is intended to use the allocated internal audit budget to purchase additional audit resources to

deliver the audit plan. A more realistic provision for carry forward work of 250 days (180 days in 2013/14) has been made, recognising that this provision has been underestimated in previous years.

### Indicative Allocation of Internal Audit Resources

14. The overall allocation of time from the estimated 3451 days available is as follows, with further detail of the indicative audit review coverage set out in **Appendix 2**. Members will observe that **Appendix 2** analyses internal audit coverage by both audit theme (e.g. Compliance, Financial Management, Operational Systems) and Departments, giving the indicative % allocation of resources allocated in each case.

<b>Internal Audit Work allocations</b>	<b>Days</b>	<b>%</b>
- Main Audit Review Work (further indicative analysis by Department and Theme in Appendix 2) – (1,634 days) - Museum of London & London Council SLA – (115 days) - Honorary Audits (e.g. Guildhall Club Accounts) – (10 days) - Efficiency Work allocation – (100 days)	1,859	58%
Corporate Risk Management support	134	3.9%
Anti-Fraud & Corruption - investigations and pro-active prevention and policy development	425	12.3%
Advice & Guidance - on risk & controls	160	4.6%
Efficiency Board/EPSC Support	40	1.2%
Audit Planning & Reporting – engagement with senior management, External Audit and detailed update reporting to Members	114	3.3%
Member Committee Support – attendance and support to Audit & Risk Management Committee, and six other Risk/Audit focused committees	71	2.1%
Audit Development – includes further development in use of audit automation and new audit techniques, external networking	127	3.7%
Training	136	3.9%
Staff absences	126	3.7%
Admin Support - staff monitoring/meetings/time recording	259	7.5%
<b>Total</b>	<b>3,451</b>	

1. 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, with lower 'desirable' work displaced as necessary.

2. Detailed internal audit planning for 2014/15 will commence in October 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 2014/19 period. It is planned to present this Audit Strategy and annual audit plan to the Chief Officers Group in January 2014 and seek Audit & Risk Management Committee approval at the 4<sup>th</sup> March 2014 Committee meeting for the annual audit plan. The Committee may wish to suggest areas of audit focus, for risk assessment and consideration as part of the detailed audit planning process.
3. Current and future audit plans are regularly reviewed in year with changes made as a result of emerging risks and requests for assurance work or audit support from senior management or Members. Changes to audit plans are reported to the Audit & Risk Management Committee via the regular internal audit update report. The forward audit work programmes will be reviewed on a quarterly basis.

### **Assurance Mapping**

4. Internal audit is piloting the use of assurance mapping techniques with the City of London Police and Guildhall School of Music and Drama in the current year to provide a holistic overview of assurance coverage of key risks and controls. This will assist in the focusing of internal audit activity, by developing a clearer picture of the scope of other assurance activities, particularly that undertaken by external inspectors or management review activities. It is intended to roll these exercises out to larger Departments in 2014/15.

### **Reporting on Key Themes**

5. The Chief Officer Customer satisfaction review identified support for Internal Audit sharing and promulgating more widely, thematic risk and control issues arising from routine audit and investigation work. The purpose of this is so that Chief Officers can seek assurances that similar risk and control issues are not present in their own departments. This thematic reporting will start from an audit and risk focused workshop with the Chief Officers Group on the 27<sup>th</sup> November and will be progressed and refined in 2014/15 to become a regular feature of internal audit work.

### **2014/15 Areas of audit emphasis within routine audit work**

6. The following areas of audit emphasis for next year's cyclical internal audit plan have been identified as follows.
7. **PP2P and City of London Procurement Service:-** assurance work in this major efficiency and performance improvement area for the City will continue. The embedding of the operation of the new City of London Procurement Service will be reviewed, including the deployment of new procurement methods. Further work to that already undertaken on the PP2P performance payments and governance is also planned to review the transition of the partnership agreement with Accenture in the final phase of the PP2P programme.

8. In addition, organisational compliance with new CLPS requirements will be assessed through review of centralised arrangements and review work within Departments.
9. **Major Projects:-** Embedding of the new project management arrangements will be considered through review of specific projects and project management process reviews.
10. **Financial Management:-** responsibilities and the organisation of teams providing financial management services were re-organised during 2011/12 as a result of the Strategic Finance Review. Discrete Departmental Financial Management reviews will continue to focus on the impact of the new centralised Financial Management arrangements on the control environment. A specific review is planned to provide overall assurance as to the effectiveness of the new Financial Management model that has now been implemented.
11. **Commissioning, Partnerships and major service contracts:-** Adoption of new commissioning, partnerships and major service contract management arrangements, particularly within Community and Children Services, (including Public Health) and Built Environment Departments, will be reviewed.
12. **IS – New 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 Agiliysys in addition to providing assurance on key risk areas where operational responsibility remains with the in-house IS functions.
13. **Human Resources Processes**– internal audit work will continue the work planned for the later part of 2013/14 to focus on key Human Resource process areas following the centralisation of HR services. Likely areas including corporate induction and training, staff establishment control, maintenance of staff records and staff declarations.

#### **Further areas of possible audit focus**

14. In addition to above areas of emphasis from internal audit's cyclical risk based plans, the following additional areas have been identified for internal audit focus. Member's observations on these areas are sought as well as suggestions as to other areas of focus that could be considered as part of detailed audit planning process over the next few months.
15. **Financial compliance and probity checks** – a programme of Departmental reviews is planned to focus on key financial probity controls, focusing on the areas of cash handling, expense claims, use of procurement cards, overtime payments, gifts and hospitality and declarations of interest.
16. **Information Governance:** –Work would continue to support the officer Information Management Governance Board. Likely focus would be security over sensitive and confidential information held electronically and on-paper records and the Data Quality of management information.

17. **Service Based Reviews** - Internal audit will keep a watching brief over the progress of the service based review process, providing input and challenge in relation to the project management arrangements and risk assessments.

### **Efficiency and VFM**

18. 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.
19. In addition, the internal audit function will be continuing to support the work of the Officer Efficiency Board and Member Efficiency & Performance Sub-Committee through undertaking forensic efficiency and performance reviews. Work in supporting the corporate income generation project is also expected.
20. VFM and efficiency review challenges will continue to be built into each audit review where feasible. We would also plan to identify other audit reviews with a primary VFM focus.

### **Conclusion**

21. 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 efficiency and other corporate review areas, including Information Governance, Partnerships and Commissioning, and key change projects e.g. CLPS. An increased focus on Financial Compliance and probity checks is proposed for 2014/15.

### **Appendices**

Appendix 1 – Internal audit resource assumptions

Appendix 2 – Indicative internal audit resource allocations by Theme and Department

Appendix 3 - Audit Planning 2013/13 - Indicative Department resource allocation with Budgets and Commentary

[Appendix 4 – Audit Risk Assessment Methodology](#)

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