

Committee:	Date:
Audit & Risk Management Committee	4th March 2014
Subject: 2014/15 Internal Audit Planning	Public
Report of: Chamberlain	For Decision

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 present the Annual Audit Plan for 2014/15. A strategic overview of the 2014/15 plan was discussed by the Committee at its October 2013 meeting following which detailed consultation meetings have been held with Chief Officers over the Autumn to inform the development of more detailed plans.

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 an increased focus on VFM and efficiency, and working much closer with senior management so its work is more focused 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 combining 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.

Internal audit is developing 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 these exercises out to larger Departments in 2014/15.

Following feedback from 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 the audit resources allocation. Appendix 4 provides information on the Audit Risk Assessment Methodology.

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

- Financial Management
- Operations Systems
- Corporate Governance & Performance
- Information Systems and Governance
- Efficiency and VFM
- Contracts, Procurement and Projects
- Compliance

This report sets out the resource availability and proposed deployment of audit resources for the anticipated 3492 days available from the 15.6 Full Time Equivalents (FTE) in the internal audit section. These allocations are broadly the same as in previous years, although the provision for carry forward work from the previous year's plans has been increased to a more realistic level (275 days), compared to last year's inadequate allocation of 180 days. A contingency provision of 170 days has also been included.

An allocation of 140 days for dedicated VFM and efficiency work has been provided for within this plan. There is the possibility that additional audit resource will be requested to support more detailed analysis of service based reviews. This will be considered in-year with the new Chamberlain, in light of progress with the service based reviews and progress in delivering the higher

priority work within the 2014/15 audit plan.

Recommendation

The Audit and Risk Management Committee agree the 2014/15 Audit Plan.

Main Report

The role of internal audit

1. Internal auditing is an independent, objective assurance and consulting (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.
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 it's the Audit Charter 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.

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 2014-19 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 risk 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 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 are highlighted within each theme of audit coverage explained later in this report.
12. External Audit (City Fund and non-City Fund auditors) have been 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, with an additional temporary senior auditor being retained for the first quarter of the financial year to assist with the completion of the carry forward work for the 2013/14 audit plan.
14. 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. Succession planning particularly for specialist IS and Contract and procurement auditors remain 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 275 days (180 days in 2013/14) has been made, recognising that this provision has been underestimated in previous years.

Allocation of Internal Audit Resources

15. The overall allocation of time from the estimated 3492 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.

Internal Audit Work allocations	Days	%
<ul style="list-style-type: none"> - Main Audit Review Work (further indicative analysis by Department and Theme in Appendix 2) - new review work – (1208 days, including 100 days allocated for Efficiency Work) - completion of 2013/14 audit plan – (275 days) - Follow-up of audit recommendations – (139 days) - Museum of London & London Council SLA – (88 days) - Honorary Audits and Examination (e.g. Guildhall Club Accounts) – (9 days) - contingency (170 days) 	1,889	54%
Corporate Risk Management support	142	4.1%
Anti-Fraud & Corruption - investigations and pro-active prevention and policy development	423	12.1%
Advice & Guidance - on risk & controls	155	4.4%
Efficiency Board/EPSC Support	40	1.1%
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%
Audit Development – includes further development in use of audit automation and new audit techniques, external networking	127	3.6%
Training	136	3.9%
Staff contractual absences	126	3.6%
Admin Support - staff monitoring/meetings/time recording, audit software maintenance	269	7.7%
Total	3,492	

16. These allocations between direct audit work, business support activities and Audit Team management and development are similar to last year. One of the main differences is including a more realistic allocation of 275 days for carry forward work compared to the 180 days allocated last year. This represents the best estimate possible of carry forward days, 6 weeks prior to the end of the financial year based on the work done to date.
17. Detailed internal audit planning for 2014/15 commenced 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.
18. 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.
19. An allocation of 100 days for dedicated audit review work on efficiency and VFM matters and 40 days for direct support work to the Efficiency Board and Efficiency and Performance Sub-Committee has been provided for within this plan. It is anticipated that the major part of this resource allocation will be used to support the service review programme. Within the context of the pressing need for services to identify and reduce net spending or increase income, there is the possibility that additional audit resource will be requested to support more detailed analysis of service based reviews. This will be considered in-year with the new Chamberlain, in light of progress with the service based reviews and progress in delivering the higher priority work within the 2014/15 audit plan.
20. 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

21. Internal audit has been piloting the use of assurance mapping techniques with the City of London Police in 2013/14 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 planned to roll these exercises out to three larger Departments in 2014/15.

Reporting on Key Themes

22. 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 commenced with an audit and risk focused workshop with the Chief Officers Group in December 2013 and will be progressed and refined in 2014/15 to become a regular feature of internal audit work.

2014/15 Areas of audit emphasis

23. The internal audit plan has been analysed into seven main themes. The purpose of this is to demonstrate the balancing of audit coverage. Details of links back to relevant Strategic risks are also identified in this section.

Financial Management

24. Audit work in this area is focused on providing assurance on key financial systems, budgetary control and financial stewardship through reviews on key Chamberlain Department Financial Systems (e.g. Business Rates, Pensions, Treasury Management) as well as work undertaken on Financial Governance within Departments.
25. Many key financial systems will be changed during 2014/15 as a result of the full in-sourcing of the Business Rates and Council Tax functions, Oracle 12 implementation and the introduction of new Pension arrangements. Internal audit work will be focused on providing risk and controls advice as new processes and systems are introduced in these areas. ICT application audits are planned on key high value systems (e.g. On-line Banking for Money Market transactions and BACS – receipts and payments). Departmental Financial Management reviews are planned for Markets and Consumer Protection, Town Clerks and Comptroller and City Solicitors Department.
26. Responsibilities and the organisation of teams providing financial management services were re-organised during 2011/12 as part of the Strategic Finance Review. Audit work continues to focus on the impact of the new Financial Management arrangements and whether any risks have materialised through changes in the control environment.
27. Assurance work in this area has a clear linkage to Strategic Risk 3 – Financial Stability.

Corporate Governance & Performance

28. Audit work in this area is focused on key Governance areas such as Health & Safety, Business Ethics, declaration of interests and performance management and business planning arrangements.
29. Department Performance Measure reviews are planned in a number of Departments. Corporate reviews are planned of officer declarations of interest and the Health & Safety framework which has a direct link to Strategic Risk 9 – Health & Safety.

Operational Systems

30. Audit work in this area focuses on key systems and activities in operational and service delivery areas of the City. A number of reviews are planned on HR operations areas including Learning and Development, Occupational Health and Sickness management.

31. Other reviews include catering facilities managed by Open Spaces and Town Clerks Departments, DCCS Housing Allocations and vacancy management and the DBE Penalty Charge Notice systems.

Information Systems and Governance

32. Audit work in this area focuses on the new IS/IT infrastructure arrangements established with Agilisys, remaining in-house IS/IT functions, and related information security and business continuity risks.
33. Implementation of the Agilisys partnership arrangement, has had a significant impact on the focus of audit work due to the outsourcing of the main IS/IT infrastructure and staff support. The internal audit team has been directly engaged with the setting up of the new contract management arrangements with Agilisys and will review these new arrangements as a key audit during the year. A full review of the City's back-up, patching and change control, service desk and disaster recovery as now operated by Agilisys is planned.
34. City of London Police, Business Continuity Planning and Disaster Recovery arrangements are also planned for review.
35. Information Governance, particularly security over sensitive and confidential information held electronically and on paper records will be reviewed, which will have direct relevance to the new Information Security Strategic risk as well as having some linkage to Strategic Risk 8 relating to Reputational Risk.

Efficiency and Value for Money

36. It is expected that internal audit work will continue to have a significant focus on efficiency and value for money. In addition to considering these aspects as part of general reviews, an allocation of 100 days has been made for specific Efficiency work.
37. An on-going role for internal audit 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, with a particular focus on the service based reviews, which are now underway and will complete in 2014/15.
38. Two efficiency audits are planned to review the use of temporary staff and a related review will look at the use of consultants.
39. In addition, as part of other audit reviews, internal audit will look to 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.
40. The internal audit function is sufficiently resourced to undertake this Efficiency and VFM work and still be able to provide an assurance on the City of London's control environment through a wide programme of assurance activities which are described in the other themes.

Contract, Procurement & Project Audit

41. Audit work in this area focuses on the key systems for developing and implementing major revenue and capital projects, procurement processes and the City's new project management arrangements.
42. Internal audit work will look to place reliance on the operations of the CLPS compliance function, and close working with this function will be pursued to assist in ensuring compliance with the new centralised purchasing arrangements.
43. Work on adult services commissioning is planned for DCCS, in addition to the review of construction and physical maintenance projects within the Barbican Centre, Built Environment and Housing function of the Department of Community Services.
44. In addition, organisational compliance with new CLPS requirements will be assessed through our review work within Departments.
45. Audit work in this area has a direct link to the Strategic Risk 6 relating to Project Risk.

Compliance & Spot Checks

46. A rolling programme of compliance audits are planned covering inventories, safes, control of income, use of procurement cards and stores. These reviews are often undertaken through visits to local City offices located away from the Guildhall Complex. In addition compliance spot checks are also undertaken on key financial systems, to provide assurance on compliance with process, in years when full risk based system audits are not being undertaken.

Delivery of main audit work

47. The 2014/15 operational audit plan will be delivered using a mixture of different methods of audit delivery. In addition to full assurance projects which seek to provide a wide assurance on the adequacy and effectiveness of the controls in the area reviewed, there are mini assurance reviews which are targeted on a smaller area of activity, compliance spot checks, system development reviews focused on ensuring controls are properly designed into new systems, and consultancy reviews which is focused on developing proposed design solutions for new systems and arrangements. In addition two Honorary Audits and Examinations are expected relating to the Guildhall Club and Police Athletics Clubs. The split of this planned work is set out in the table below.

<i>Review Type</i>	<i>Number</i>	<i>Days</i>	<i>Days (%)</i>
Full Assurance Review	61	889	74%
Mini-assurance review	31	164	14%
Compliance Spot Check	21	77	6%
Consultancy	1	65	5%
System development reviews	1	13	1%
Honorary/Examination Audits	2	9	0.1%
Total	115	1208	

48. A detailed listing of all planned internal audit reviews for 2014/15 is available to members on request.

49. The internal audit section has a range of IS audit tools including an audit transaction interrogation package called IDEA which can analyse thousands of records efficiently and the AppsSecs software tool which assesses computer application compliance to IS security standards.

Conclusion

50. 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.Oracle 12 implementation.

Appendices

Appendix 1 – Internal audit resource assumptions

Appendix 2 –internal audit resource allocations by Theme and Department

Appendix 3 - Audit Planning 2014/15 - Department resource allocation with Budgets and Commentary

Appendix 4 – Audit Risk Assessment Methodology

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