

LONDON BOROUGH OF HARROW

Meeting:	Cabinet
Date:	15 July 2003
Subject:	Internal Audit Plan 2003/04
Key Decision:	No
Responsible Chief Officer:	Executive Director, Business Connections
Relevant Portfolio Holder:	Finance and Human Resources and Performance Management
Status:	Part 1
Ward:	All
Enclosures:	Appendix A - 2003/04 plan of work

1 **Summary**

- 1.1 This document provides background information on the role and operation of Audit & Consultancy Services (ACS) and its proposed plan of work for the financial year 2003/04.

2. **Recommendation (for decision by Cabinet)**

2.1 That Cabinet approve the internal audit plan.

Reason: Statutory requirement to ensure adequate audit coverage and to agree an annual plan of work.

3. **Consultation with Ward Councillors**

- 3.1 N/A

4. **Policy Context (including relevant previous decisions)**

- 4.1 It is a statutory requirement for local authorities to make arrangements for the provision of an adequate and effective internal audit service.

5. Relevance to Corporate Priorities

5.1 The work of internal audit is key to the corporate governance and sound financial management of the Council, both of which underpin the delivery of its key corporate priorities.

6. Background Information and options considered

Role

6.1 ACS undertakes an annual programme of reviews cutting across all departments of the Council. These reviews assess the adequacy of controls and mechanisms in place to support the achievement of objectives and the management of risks.

6.2 More broadly the work of ACS aims to:

- provide **assurance** about the effectiveness of systems of internal control and risk management
- **alert** management to significant weaknesses in control which have resulted, or may result, in loss, error, harm or other undesired event
- **advise** on how particular problems may be resolved and control improved to minimise the chance of future occurrence
- **assist** in developing solutions to problems

6.3 It is the responsibility of managers to operate and maintain effective internal control systems in accordance with the Authority's Financial Regulations and Standards.

Standards

6.4 All work is conducted in accordance with professional guidelines set by CIPFA/APB. ACS' performance is evaluated regularly by the External Auditor and recently achieved the maximum rating of 4 in the CPA inspection process.

6.5 Performance targets associated with the planning, conduct, reporting and follow-up of ACS' work are contained within the annual service plan. Performance monitoring information is produced regularly and the results are included in the Chief Internal Auditor's annual report.

6.6 The annual service plan also contains a range of development activities. For 2003/04 these include:

- introduction of assurance statements to support the Chief Financial Officer
- development of working relationships with the new external auditor
- production of a joint protocol covering the planning, co-ordination, reporting and follow-up of internal and external audit work
- review of strategies for future coverage of IT systems, social services establishments and schools

Resources

- 6.7 The majority of internal audit work is undertaken by an in-house team of 8 FTE staff. Additional resources (amounting to approximately 1 FTE) are purchased through a partnership arrangement with a private sector company. This arrangement is used primarily to bring-in specific expertise for IT audits, but also to provide a 'top-up' facility to cover for vacancies. Staffing levels have historically been low compared with those of other London boroughs and remain so.

Planning

- 6.8 Professional guidelines do not prescribe the actual work to be undertaken by local authority internal audit units. This is for individual organisations to determine based on an assessment of risk and having regard to local circumstances. The Accounts and Audit Regulations make it clear that the role of internal audit extends to all systems of internal control, not just financial systems.
- 6.9 The specific services to be provided are revisited each year. Within the plan a significant proportion of audit time is ring-fenced to allow for coverage of the core financial systems, input to fraud initiatives, follow-up of previous recommendations, and ad-hoc support and advice. Much of this work is undertaken to support the statutory responsibilities of the Chief Financial Officer and to help meet the new requirements for the inclusion of a statement on control systems within the annual accounts. It also aims to support the work of the External Auditor by maximising the reliance which can be placed on ACS' work and minimising scope for duplication.
- 6.10 Outside of the ring-fencing arrangements, ACS' coverage is determined through risk assessment and consultation with departmental management teams. Again there is close liaison with the External Auditor to minimise scope for duplication.
- 6.11 In common with previous years there are insufficient levels of internal audit resources to fully meet departmental demand for coverage of high risk systems. The Authority needs to be aware that certain areas of work have therefore had to be excluded from the 2003/04 audit plan. In particular these include reviews of arrangements for maximising income, for management of health and safety, for implementation of improvement plans, and for protection of vulnerable clients. Additional management actions may be needed to manage risks within these areas.
- 6.12 The Authority continues to undergo a period of considerable change and whilst the plan reflects this as far as is possible, it will need to be kept under review and tailored, where appropriate, to changing circumstances.
- 6.13 The 2003/04 plan of work comprises the following key elements:
- corporate work
 - fundamental financial systems
 - local/departmental financial systems
 - IT systems
 - anti-fraud and corruption arrangements

6.14 The specific projects to be undertaken are itemised at Appendix A. For each review a detailed terms of reference, including objectives, scope, methodology and resources, will be developed and agreed with the relevant senior manager prior to work commencing.

6.15 The results of the year's work will be summarised in the Chief Internal Auditor's annual report.

7. Finance Observations

7.1 The proposed audit plan for 2003/04 focuses primarily on financial systems. This is to help the Authority move forward with planned improvements in financial management, to support the inclusion of a statement on internal control systems within the annual accounts, to respond to recommendations made by the Benefits Fraud Inspectorate and to support the new external auditor by maximising the degree of reliance which can be placed upon internal audit work. This approach will be reviewed for 2004/05.

8. Legal Observations

8.1 None

9. Conclusion

9.1 The proposed audit plan for 2003/04 focuses primarily on financial systems. This is to help the Authority move forward with planned improvements in financial management, to support the inclusion of a statement on internal control systems within the annual accounts, to respond to recommendations made by the Benefits Fraud Inspectorate and to support the new external auditor by maximising the degree of reliance which can be placed upon internal audit work. This approach will be reviewed for 2004/05.

10. Background papers

10.1 None

11. Author

11.1 Toni Walker, Chief Internal Auditor, Tel: 020 8424 1781, email: toni.walker@harrow.gov.uk

CORPORATE WORK

Two projects are proposed:

- **continuity planning and disaster recovery** – a brief review of the progress made in developing and implementing continuity plans for business critical systems and advice in connection with testing of disaster recovery arrangements.
- **BVPIs** – a review of the effectiveness of systems for collating and evidencing PIs prior to publication and external audit.

Other key areas of work are:

- **financial regulations and standards** – revision of these to reflect the new organisational structure, the implementation of e-government, and enhanced arrangements for financial management.
- **whistleblowing** – input to the Authority's review of whistleblowing arrangements.
- **follow-up** – a sample of high risk recommendations arising from ACS' 2002/03 work will be followed up to ensure that agreed actions have been implemented.
- **ad-hoc advice and support** – will be provided throughout the year on a range of issues including risk management, control improvement, governance, and application of Financial Regulations and Standards. In addition specific advice is likely to be required in relation to e-procurement, risk management strategy, transport strategy, education delegations and the proposed housing ALMO.

FUNDAMENTAL FINANCIAL SYSTEMS

KEY CONTROL REVIEWS

These are annual audits designed to confirm the presence, or otherwise, of critical high level controls within each of the Council's core financial systems. They are undertaken in the following areas:

- **housing benefit**
- **council tax**
- **NDR**
- **income**
- **creditors**
- **cashiers**
- **treasury management**
- **payroll**
- **housing rents**

These audits will be undertaken in the early part of the financial year to enable the External Auditor to utilise them for work on the 2002/03 accounts. At the conclusion of this work an assurance statement will be produced for the Chief Financial Officer to support the requirement for the inclusion of a statement on control systems within the annual accounts. Further assurance will be provided following the completion of the detailed systems work outlined below.

SYSTEM REVIEWS

Key control reviews are also supplemented by more extensive coverage as part of a 3 year rolling plan. For 2003/04 the areas selected for more detailed review are:

- **housing benefit**
- **NDR/council tax**
- **payroll**
- **cashiers**
- **treasury management**

The detail of the work to be undertaken will be developed by reference to control matrices provided by CIPFA and, in the case of housing benefit, to the administration standards recently published by the DWP. Coverage in housing benefit will focus on claims processing and relationships with landlords. The work in payroll will be specifically targeted to address known areas of control weakness.

The aim is to provide full coverage of all the Authority's core financial systems over a period of 3 years.

One additional piece of work will be undertaken in relation to the Authority's expenditure systems:

- **purchase cards** – assist in the evaluation of the pilot prior to roll-out to other areas

LOCAL/DEPARTMENTAL FINANCIAL SYSTEMS

DEPARTMENTAL

The following reviews are proposed:

- **domiciliary care** - follow-up of implementation of actions arising from a recent whistleblowing investigation, incorporating post-implementation review of new contract management arrangements.
- **pooled budgets** – support in the development of arrangements for operating pooled budgets with the PCT.
- **drugs action team** – review of arrangements in place to ensure that all funding received is utilised to support the achievement of priorities and is properly accounted for.

SOCIAL SERVICES - ESTABLISHMENTS

Reviews will be undertaken at a sample of establishments covering a range of financial and management systems:

- **budgetary control** - adequacy of arrangements in place for the preparation, monitoring, control and evaluation of budgets.
- **payroll interface** – adequacy of arrangements for ensuring that all issues affecting employees pay and conditions are identified promptly and notified to Personnel and Payroll for action.
- **sickness/absence monitoring** – adequacy of arrangements for identifying, recording, monitoring and notifying staff absence.
- **IT security** – adequacy of arrangements for physical and logical security of local IT systems.
- **client finances** – adequacy of safeguards in place to ensure the protection of client finances.

A more detailed exercise will be undertaken to formulate the sample of establishments to be reviewed and the emphasis of each review. Coverage will take into account areas of known control weakness and will be agreed with the Department. Arrangements for **central control/support** in these areas will also be reviewed. The need to develop a longer term rolling programme of coverage of Social Services establishments will be reviewed in the light of the results of 2003/04 work.

SCHOOLS

Reviews will be undertaken at a sample of schools covering a range of financial and management systems:

- **purchase cards pilot** – participate in the evaluation of the pilot prior to roll-out to other schools
- **budgetary control** – adequacy of arrangements in place for the preparation, monitoring, control and evaluation of budgets and development plans.

- **expenditure systems** – adequacy of financial controls and compliance with Financial Regulations and Standards.
- **critical incidents/journeys** – adequacy of arrangements for planning for and reducing risks associated with school journeys and critical incidents.

Again a more detailed exercise will be undertaken to formulate the sample of schools to be reviewed and the emphasis of each review. Results of previous audits will be used to inform this and coverage will be agreed with the department. The process of visiting and auditing schools is very resource intensive and alternative methodologies, such as increased use of workshops and questionnaires, will continue to be developed.

IT SYSTEMS

ACS' coverage of IT systems spans the following broad areas:

- application reviews
- operating systems
- security and control reviews
- management arrangements

Specific areas of coverage proposed for 2003/04 are:

- **CFACS/e-financials** – advice on system migration and post implementation review of effectiveness of logical security arrangements.
- **I world revenues and benefits** – advice on system migration and post implementation review of effectiveness of logical security arrangements.
- **helpdesk** – review of arrangements in place for ensuring that standards and response times are met, and for ensuring adequate separation of duties and control of access rights.
- **asset register/disposal** – review of adequacy of arrangements for ensuring that assets are adequately accounted for and disposed of securely.
- **firewalls/virus protection** – review of effectiveness of controls in place to protect the Authority's systems from hacking, misuse, viruses etc.
- **remote servers** – review of effectiveness of arrangements in place for ensuring security of remote servers.
- **payroll/personnel system** – ongoing advice on the integration of payroll and personnel systems.
- **IT security policy** – post-implementation review of the effectiveness of the recently developed security policy.

During the year we shall be reviewing our longer term strategy for audit coverage of IT systems.

ANTI-FRAUD AND CORRUPTION ARRANGEMENTS

The following work is planned:

- **National Fraud Initiative (NFI)** The Authority participates in the NFI annual data matching process which is co-ordinated by the Audit Commission. This involves comparing selected data between and within local authorities and other agencies with the aim of preventing and detecting fraudulent activity. Areas included in this year's exercise are payroll, pensions, student loans, housing benefits, and housing rents. ACS will undertake direct analysis in respect of payroll matches identified and will co-ordinate and advise on work required in other areas.
- **intelligence work** – including liaison with the London Team Against Fraud, the Audit Commission, and the police; dissemination of information/fraud alerts and completion of annual returns and statistics.
- **Irregularity investigations** – time is allowed in the plan to provide support to managers in the investigation of suspected irregularities. Six monthly monitoring reports will be produced for the Overview and Scrutiny Committee.
- **Systems reviews** – individual system reviews are tailored as appropriate to focus on key controls designed to prevent and detect fraud and corruption, eg separation of duties, audit trails, exception reports, reconciliations. For 2003/04 three reviews with a specific anti-fraud and corruption theme will be undertaken:
 - **housing repairs** – follow-up of implementation of actions arising from previous audits, focusing on systems for placing, inspecting and paying for work.
 - **planning** – review of adequacy of controls in place for the granting of planning permissions, including operation of officer delegations
 - **code of conduct** – review of arrangements for considering applications from employees to undertake private work