

**REPORT FOR: GOVERNANCE, AUDIT,
RISK MANAGEMENT &
STANDARDS COMMITTEE**

Date of Meeting:	5th April 2016
Subject:	2016/17 Draft Internal Audit & Corporate Anti-Fraud Plans
Responsible Officer:	Tom Whiting – Corporate Director of Resources & Commercial
Exempt:	No
Enclosures:	Appendix 1: 2016/17 Draft Internal Audit & Corporate Anti-Fraud Plans

Section 1 – Summary and Recommendations

This report sets out the 2016/17 Draft Internal Audit & Corporate Anti-Fraud Plans.

Recommendations:

The Committee is requested to: Review and approve the 2016/17 Internal Audit & Corporate Anti-Fraud Plans in accordance with the Public Sector Internal Audit Standard 2020 Communication and Approval.

Section 2 – Report

2016/17 Internal Audit Draft Plan (Appendix 1) Background

- 2.1 Internal audit is a statutory service. The Accounts and Audit Regulations 2015, state that:
- ‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’
- 2.2 The Public Sector Internal Audit Standards (PSIAS) have been adopted and are being implemented by the Council’s Internal Audit section. A self-assessment against the standards is about to be undertaken and an action plan will be developed and implemented to improve compliance, as necessary, in preparation for an external peer review to be undertaken later in the year.
- 2.3 It is a requirement of the PSIAS that the ‘chief audit executive’ (Head of Internal Audit) ‘must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.’

Annual Plan Process

- 2.4 In compliance with the PSIAS requirement annually a risk based internal audit plan of work is developed by the Head of Internal Audit to determine the priorities of the internal audit service for the coming year to support the Council’s vision and priorities.
- 2.5 The 2016/17 plan has been developed taking into account the Council’s risk management framework, including the risk maturity of the organisation and the developing risk appetite statement. Senior management, via Directorate DMTs, and meetings with the Chief Executive and the Director of Finance (S151 Officer) have been consulted and their input used to help assess risks not specifically linked to the Corporate or Directorate risk registers and a documented risk assessment has been undertaken for such reviews included in the plan.
- 2.6 The development of the plan has also taken into account the requirement for the Head of Internal Audit to produce an annual internal audit opinion on the Council’s framework of governance, risk management and control, reported each year in the Internal Audit Year-end report.

Internal Audit Strategy

- 2.7 Internal audit adds value to the organisation and contributes to the corporate vision and priorities by providing assurance on the organisation's control environment, alerting managers to weaknesses identified in the control environment, highlighting the risks of such weaknesses and instigating action to be taken by managers to improve the control environment via the implementation of audit recommendations/advice.
- 2.8 The annual plan is designed to provide the GARMS Committee, the Corporate Strategic Board (Chief Executive + Corporate Directors), the S151 Officer and other senior managers with assurance on the Council's control environment.
- 2.9 The plan will be delivered primarily by the dedicated in-house team situated in the Resources Directorate in accordance with the Internal Audit Charter, which is currently being updated and will be presented at the next GARMS Committee meeting. The Internal Audit team is supported by an external provider, PwC, jointly procured with 5 other London Boroughs (Islington, Camden, Barnet, Enfield and Lambeth) who provide, in the main, IT audit specialist skills. The six boroughs participating in the framework, along with the selected external provider, form the Cross Council Assurance Service (CCAS). Participating in the framework enables us to work more closely with the other London Boroughs and the external provider, sharing expertise, knowledge and working practices to further enhance the efficiency and effectiveness of the internal audit service.
- 2.10 Key to the successful delivery of an effective internal audit service in a rapidly changing business environment is flexibility. This will be achieved by continual monitoring of the plan and emerging risks throughout the year with adjustments made to the plan as necessary.

Organisational Independence

- 2.11 The Public Sector Internal Audit Standards require the chief audit executive (Head of Internal Audit) to confirm to the board (GARMS Committee/CSB), at least annually, the organisational independence of the internal audit activity and if independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties.
- 2.12 The internal audit service at Harrow does not have organisational independence in that the Head of Internal Audit does report functionally to the board (GARMS Committee/CSB), has effective communication with, and free and unfettered access to, the Chief Executive and the chair of the audit committee (GARMS Committee). However the objectivity of the service is impaired in relation to the Corporate Anti-Fraud Team, the maintenance of the Corporate Risk Register, the preparation of the Annual Governance Statement and the drafting of the Code of Corporate Governance as the Head of Internal Audit has

responsibility for these areas and thus independent assurance on them cannot be provided by internal audit.

2.13 This gap is mitigated by the following:

- The Head of Internal Audit can provide management assurance on these areas;
- The GARMS Committee and CSB have oversight of all the areas;
- The Corporate Governance Group have oversight of the preparation of the Annual Governance Statement and the Code of Corporate Governance; and
- Some limited assurance is provided by the External Auditors.

Resources

2.14 Internal audit's resource requirements for 2016/17 have been assessed by calculating the number of audit days available based on 180 productive days per FTE member of the team, 90 days for the Head of Internal Audit and 24 days for IT Audit (a specific budget) giving a total of 834 audit days available to undertake the 2016/17 plan. Using different approaches to gain assurance ranging from self-assessment of some core financial systems to sample testing a number of schools to share findings across all schools and by using risk based audit techniques to optimise the achievement of the plan, the number of audit days available is considered sufficient to deliver the proposed 2016/17 internal audit plan.

2.15 The mix of knowledge and skills within the in-house team along with the additional support provided by PwC in relation to IT is considered appropriate to deliver the plan.

Other Sources of Assurance

2.16 The work planned by the External Auditors (KPMG) has been considered in developing the internal audit plan and the assurance provided by their work will be taken into account during the course of 2016/17. A Peer Review of the Council with a particular focus on the Council's work on Commercialisation and Regeneration is due to take place in June 2016 and the output of this review will be considered when framing the internal audit work in these areas.

2.17 Other potential sources of assurance i.e. external reviews by reputable bodies such as Ofsted and other Councils (e.g. in relation to shared service arrangements) will be considered as they occur during 2016/17.

Links to the Corporate Vision and Priorities

2.18 The Corporate Plan 2016-19, entitled 'Harrow Ambition Plan 2020' sets out the Council's vision of 'Working together to make a difference for the vulnerable, communities, families and businesses'

- 2.19 The Council's strategy (priorities) to deliver its vision, between now and 2020 is to:
- Build a Better Harrow
 - Be More Business-like and Business Friendly
 - Protect the Most Vulnerable and Support Families
- 2.20 The Council's vision and the corporate priorities are taken into account when developing the internal audit plan and where appropriate specific audit reviews have been included in the plan to support individual priorities.

2016/17 Draft Corporate Anti-Fraud Team Plan (Appendix 1) CIPFA Code of Managing the Risk of Fraud & Corruption update

- 2.21 In December 2015 it was reported to the GARMS Committee that the self-assessment being undertaken against the CIPFA code on Managing the Risk of Fraud & Corruption had commenced and that early indications were that the authority had some work to do to ensure a good all round rating.
- 2.22 The self-assessment was complete in February 2016 with a basic level of performance against the code being reached which included adequate arrangements in place against most of the performance criteria that are fundamental to the management of fraud and corruption risks.
- 2.23 Performance was good in areas such as acknowledging responsibility, providing resources and taking action against fraud and corruption risks, but improvement is required in terms of how the authority assesses its fraud & corruption risks corporately and the development of a strategy to provide resilience against fraud that accurately reflects our current fraud and corruptions risks and is linked to the corporate priorities.
- 2.24 An action plan has been developed to target improvement and a number of themes cutting across all aspects of the code have been identified which will improve the authorities' resilience against fraud and corruption risks. These are:
- Identification and assessment of fraud and corruption risks across each directorate and consideration be given to the development of a fraud risk register which could integrate with the current risk framework;
 - Raising awareness and the profile of fraud and corruption both within the authority and in the community to highlight the harm it can cause;
 - Development of a strategy to manage fraud and corruption risks that closely aligns to the overall corporate objectives and priorities of the authority.
- 2.25 Work has already commenced on the above themes with the Head of Internal Audit, the Interim Risk Manager and the Corporate Anti-Fraud

Service Manager all meeting with the Chief Executive and Corporate Directors and their management teams to assess fraud and corruption in each Directorate.

Development of the Draft Plan

2.26 The draft plan has been developed by drawing on a number of sources:-

- Discussions with the Head of Internal Audit and Interim Risk Manager to co-ordinate common interest work where possible;
- Consultation with the Chief Executive, Corporate Directors and their departmental management teams on fraud risks;
- The action plan developed as a result of the self- assessment against the CIPFA code;
- Local knowledge about known fraud risks the authority faces;
- Findings from Protecting the English Public Purse 2015 and Protecting the London Public Purse 2015.

Financial Implications

The functions of the Internal Audit and Corporate Anti-Fraud service are delivered within the budget available.

Risk Management Implications

The work of Internal Audit and the Corporate Ant-Fraud Team supports the management of key risks across the council.

There are two main risks to the achievement of the Internal Audit and Corporate Anti-Fraud plans:

- The risk of inadequate resources to achieve the plans caused by unplanned reduction in staff resource e.g. sickness, maternity leave or staff leaving; and
- The risk of higher than anticipated level of reactive work e.g. investigations and emerging risks.

These risks are mitigated by good management practices e.g. monitoring/managing of sickness absence, by keeping the teams motivated and the risk assessment of work on investigations and emerging risks.

Equalities implications

None

Corporate Priorities

Internal audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support the priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 22/03/16		
Name: Caroline Eccles	<input checked="" type="checkbox"/>	On behalf of Monitoring Officer
Date: 22/03/16		

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Head of Internal Audit
Tel:0208 424 1420

Background Papers: None.

If appropriate, does the report include the following considerations?

1.	Consultation	YES / NO
2.	Corporate Priorities	YES / NO