LONDON BOROUGH OF HARROW

Meeting:	Overview & Scrutiny Committee
Date:	27 April 2004
Subject:	Internal Audit Plan 2004/05
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 - 2004/05 audit plan

1   Summary

1.1   This document provides details of the 2004/05 Internal Audit plan recently agreed by members of the Corporate Management Team.

2.   Recommendation

2.1   That the committee comment on and note the plan.

Reason: Statutory requirement to ensure adequate audit coverage.

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 and drive for service improvement.

6. Background Information and options considered

6.1 This document sets out the proposed internal audit plan for 2004/05. It derives from the 2004/07 strategic plan previously endorsed by CMT and Cabinet. It has been developed in consultation with departmental managers and the external auditor and through reference to key improvement plans and the outputs of the recent strategic risk management process.

6.2 The recommended level and scope of audit coverage is set out in the 3 year strategic plan. That plan assumes growth of 3 staff, and approval has recently been obtained for these additional resources to be phased in over the next 3 years. The strategic plan will be reworked later in the year to take this into account.

6.3 Meanwhile, the plan for 2004/05 reflects priority areas of work from the strategic plan. Coverage is maintained across traditional areas including financial systems and anti-fraud arrangements, but also includes increased emphasis on management systems to provide greater support to the authority in delivering improvement. It comprises the following key elements:

- **management arrangements**, focusing primarily on areas where significant change is taking place
- **fundamental financial systems**, sufficient to meet the dual purpose of providing assurance to the chief finance officer and reliance by external audit
- **local/departmental systems,** including coverage across a range of financial and management systems
- **IT systems**, including applications, security and management arrangements
- **anti-fraud and corruption arrangements,** including pro-active systems reviews, irregularity investigations, National Fraud Initiative and intelligence work
- **ad-hoc support and advice**
- **follow-up of audit recommendations**

6.4 The specific projects to be undertaken are itemised at Appendix A. Reports and action plans will be produced for individual projects and a mid year summary report on progress and issues arising will be produced for CMT and the Overview & Scrutiny Committee. The full results of the year's work will be summarised in the Chief Internal Auditor's annual report.

7. Finance Observations

7.1 This is a report of the Executive Director (Business Connections) and deals with the Internal Audit Plan for 2004/05.

8. Legal Observations

8.1 The Accounts and Audit Regulations 2003 require an adequate and effective internal audit of accounting records and of internal control systems, including risk management arrangements.

9. Background papers

9.1 Internal Audit strategic plan 2004-2007 endorsed by Cabinet on 13 January 2004.

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INTERNAL AUDIT ANNUAL PLAN 2004/05

CORPORATE WORK

The following projects are proposed:

- **strategic and service planning** – a diagnostic review of current departmental arrangements to inform the work being undertaken by the Organisational Development Department in developing an authority-wide framework. A post-implementation review of the effectiveness of the new arrangements will be undertaken in 2005/06.

- **performance management** – provision of support in connection with the annual BVPIs quality assurance exercise. As for last year this exercise will involve sample testing of working papers and calculations prior to external audit. In future years the quality assurance process will rest with departments. A review of the new IT application will also be undertaken. Further work is planned for 2005/06 focusing on the adequacy of monitoring information and its use in driving improvement.

- **risk management** – a review of the outputs of the recent strategic risk management exercise and of progress being made with rolling out risk workshops to departments, creating a corporate risk register, and capturing information to inform the annual statement on internal controls. A review of the new IT application is also planned.

- **programme and project management** – a review of the adequacy of programme management arrangements and the extent to which project management techniques have been embedded across the organisation.

- **contract management** – four areas of work are proposed:

  o **contracts development** – a review of the processes in place to ensure that the authority's interests are adequately protected in terms of services provided, payments made, access rights and monitoring.
  o **housing repairs partnership** – a post-implementation review of invoicing arrangements to ensure that payments are properly substantiated and in line with the partnership contract. A wider review of the partnership arrangements is planned for 2005/06.
  o **housing ALMO** – input to the development of governance arrangements to ensure that there is an adequate regulatory framework in place and that processes exist to monitor compliance. A post-implementation review of the effectiveness of the arrangements for contract monitoring is planned for 2005/06.
  o **consultants** – a review of the arrangements in place for appointing consultants and the adequacy of guidance in this area. The review will focus on arrangements in Urban Living with recommendations rolled out to other departments as appropriate.

- **e-government** – a review of the impact of LGOL funding/projects in moving forward the e-government agenda.

- **business continuity planning** – a review of progress made with the implementation of business continuity arrangements and the interrelationship between departments and central IT, emergency planning and business continuity functions.

Other key areas of work are:

- **follow-up** – a sample of high risk recommendations arising from 2003/04 audits will be followed up to confirm 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 and input is likely to be required in relation to the development of governance aspects of e-induction, delegation models, and updating of financial regulations and contract procedure rules.

FUNDAMENTAL FINANCIAL SYSTEMS

KEY CONTROL REVIEWS

These audits are designed to confirm the presence, or otherwise, of critical high level controls within each of the council's core financial systems. Coverage of each system is assessed annually having regard to a range of factors including changes to systems and personnel. For 2004/05, to reflect the fact that there have been significant changes to IT systems, full reviews will be undertaken in the following areas:

- **housing benefit**
- **council tax**
- **NDR**
- **income**
- **creditors**
- **housing rents**

A partial review will also be undertaken in respect of the **payroll** system. This will involve following up audit recommendations from last year and sample testing on the operation of controls.

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 2003/04 accounts. There has been close liaison with the External Auditor to ensure that the controls and level of testing will be adequate for reliance purposes. At the conclusion of this work an assurance statement will also be produced for the Chief Finance 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 based on an annual assessment of risk. For 2004/05 the areas selected for more detailed review are:

- **housing benefit** – coverage will focus on internal security and overpayments and will be informed by the administration standards published by the DWP.
- **payroll** – coverage will be informed by CIPFA guidance, the extent to which previous audit recommendations have been implemented, and the timescale for integration of payroll and personnel systems.
- **pensions** – a review of the adequacy of controls in place for invoicing admitted bodies and receipt of transfer values.

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

- **procurement** – a review of the arrangements in place for prioritising the work of the central procurement team and measuring outputs achieved

LOCAL/DEPARTMENTAL FINANCIAL AND MANAGEMENT SYSTEMS

DEPARTMENTAL

The following reviews are proposed:

- **debt management** – a review of the adequacy of policies and systems in place for monitoring levels of debt and for maximising recovery opportunities. The review will focus on recovery of debt within social services with recommendations rolled out to other areas as appropriate.

- **purchase cards roll-out** – a review of departmental arrangements for ensuring adequate control over the use of purchase cards.

- **budget management** – a review of progress with the implementation of new budget management systems within social services

- **pooled budgets** – advice and support in the development of arrangements for operating pooled budgets with the PCT.

- **creditors local input** – a review of departmental arrangements for ensuring adequate control over local input to the creditors system.

PEOPLE FIRST ESTABLISHMENTS/SCHOOLS

A rolling programme of reviews is conducted across social services establishments and schools. These cover a range of financial and management systems, drawing from the following themes:

- **budgetary control** – adequacy of arrangements in place for the preparation, monitoring, control and evaluation of budgets and plans.
- **expenditure** – 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 journeys and critical incidents.
- **personnel policies** – a survey of social services establishments to ascertain levels of awareness and implementation of key personnel policies
- **payroll interface** – adequacy of arrangements for ensuring that issues affecting employees pay and conditions are identified promptly and notified to personnel and payroll for action.
- **attendance management** – adequacy of arrangements for identifying, recording, notifying and monitoring 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 schools and establishments 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. A variety of audit methodologies will be used including questionnaires, workshops and visits as appropriate.

It is also proposed to review departmental arrangements for ensuring clarity as to the regulatory framework and the respective roles and responsibilities of parties to **consortium arrangements**, and for monitoring the operation of such arrangements in practice.

APPLICATION REVIEWS

The following systems will be reviewed:

- **education admissions (EMS)**
- **performance management (corvu)**
- **risk management (axenaware)**
- **revenues and benefits (I-world)**
- **debtors (e-financials)**

These reviews will focus on the adequacy of input, processing and output controls, audit trails and management reports, and back-up and recovery arrangements. Arrangements for replacement of the social services **cares** system will also be reviewed.

SECURITY AND CONTROL REVIEWS

The following reviews are planned:

- **e-payments** – a review to ensure that income received electronically is processed efficiently and securely
- **e-procurement** – a review to ensure that there clear guidance exists on e-procurement arrangements and that this provides for secure processing of transactions
- **e-risk** – a review of mechanisms in place for monitoring and acting on cases of attempted/actual fraud or abuse of electronic systems, including viruses, hacking etc
- **information sharing** – review of the adequacy of protocols in place for sharing information within and outside of the authority, and compliance with legislation
- **email, internet and intranet policies** – a review to ensure that adequate policies exist and are communicated effectively
- **libraries internet** – a review of the adequacy of controls in place over the use of internet facilities in libraries
- **remote working** – a review of the adequacy of arrangements for providing secure access to the council's systems

MANAGEMENT ARRANGEMENTS

The following work is planned:

- **partnership strategy** – input to the development of the contract to ensure that suitable arrangements are incorporated for managing and monitoring the effectiveness of the partnership. A post-implementation review of the partnership arrangements is planned for 2005/06.
- **ICT strategy** – a review of processes in place for implementing, monitoring and updating the ICT strategy
- **user charter/helpdesk** – a follow-up of previous recommendations and a review of the resilience of new helpdesk software and arrangements for monitoring adherence to the user charter

ANTI-FRAUD AND CORRUPTION ARRANGEMENTS

The following work is planned:

- **National Fraud Initiative (NFI)** – the Authority participates in the NFI bi-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 currently covered by the exercise are payroll, pensions, student loans, housing benefits, and housing rents. IA 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 CMT and 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. In addition reviews with a specific anti-fraud and corruption theme will be undertaken in the following areas:

  o **code of conduct** – adequacy of arrangements for declaring and dealing with potential conflicts of interests
  o **housing tenancies** – adequacy of arrangements to ensure that the council's housing stock is occupied by bona fide tenants
  o **insurance claims** – adequacy of arrangements in place for identifying, investigating and rejecting fraudulent claims