



Internal Audit Work Programme 2024/25



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Introduction



- 1 This report sets out the proposed 2024/25 programme of internal audit work for Leicester City Council. It also introduces a proposed internal audit charter. Approval of the charter is required to ensure that the internal service is able to deliver its work in accordance with professional standards.
- 2 The work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS) and the council's audit charter. To comply with professional standards and the charter, internal audit work must be risk based and take into account the requirement to produce an evidence-based annual internal audit opinion. Accordingly, planned work should be reviewed and adjusted in response to changes to risks, operations, programmes, systems and internal controls.
- 3 Specifically, the PSIAS require that the Head of Internal Audit "*must 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 internal audit opinion.*"
- 4 The Head of Internal Audit's annual opinion is formed following an independent and objective assessment of the effectiveness of the framework of risk management, governance and internal control. Our planned audit work includes coverage of all three areas to develop a wider understanding of the assurance framework of the council, and to produce a body of work which allows us to provide our opinion.
- 5 Responsibility for effective risk management, governance and internal control arrangements remains with the council. The Head of Internal Audit cannot be expected to prevent or detect all weaknesses or failures in internal control, nor can internal audit work cover all areas of risk across the organisation.

Strategic context



- 6 Leicester City Council is facing unprecedented challenges to its medium-term financial outlook, with a real prospect of being unable to balance its budget from 2025/26¹. Real terms reductions in central government funding for over a decade, coupled with unavoidable service growth of £48m, will likely see the council's managed reserves largely depleted by the end of the current financial year. This situation is becoming increasingly common across local government and is set to continue. This is illustrated in a February 2024 report from the Local Government Information Unit in which 51% of local authority survey respondents said it was likely they would issue a Section 114 notice within the next five

¹ Revenue Budget 2024/25: 21 February 2024 Council meeting.

years². The rising number of Section 114 notices issued over recent years, and of budgets being prepared with short- to medium-term outlooks forecasting effective bankruptcy, is a clear indication of the scale of the challenge the sector is facing.

- 7 The council is also experiencing similar demand and cost pressures as other authorities in the delivery of children's and adult social care services. Increasing cohorts of those requiring social care support, a rising complexity of need, and exposure to unfavourable market conditions combine to create a more challenging environment than ever. Again, in common with other local authorities, the council has a significant deficit on its Dedicated Schools Grant (DSG) reserve as the costs of delivering education services have exceeded available funding over multiple years. However, the council has not been prioritised by the Department for Education for inclusion in one of its improvement programmes. Instead, it is required to develop a deficit recovery plan (something all local authorities with a deficit on their DSG are expected to prepare) to move towards a stable financial footing.
- 8 At the same time, the city is battling a housing crisis, with insufficient affordable homes being available for its residents to live in. The number of residents presenting as homeless has increased significantly and the city is having to simultaneously accommodate asylum seekers who have been fast-tracked out of national support service accommodation.
- 9 Against the backdrop of all these critical pressures, the council needs to reach a sustainable financial position while still delivering on its statutory duties, and on the priorities set out for the city by its Mayor.
- 10 In short, the council is expected to deliver more with less. Maintaining effective operational arrangements is an essential building block in delivering the council's core functions and its strategic objectives. Internal audit contributes to overall objectives by helping to ensure that systems of governance, risk management and control that underpin operational arrangements are robust.
- 11 To maximise the value of internal audit, it is vital that we provide assurance in the right areas at the right time. We have designed the processes for developing the internal audit work programme, and refining it through the year, to do that.

Programme principles: development & delivery

Flexible, risk-based planning and the opinion framework

- 12 In order to best meet professional standards, internal audit is required to adopt flexible planning processes that are sensitive to risk. This flexibility

² The State of Local Government Finance in England 2024: Local Government Information Unit (February 2024).

and risk-based approach are driving principles for the delivery of the council's 2024/25 internal audit work programme.

- 13 Veritau uses what is known as the 'opinion framework' to identify, prioritise, and organise delivery of internal audit work. The opinion framework is comprised of three parts.
- 14 The main component of the framework is a definition of 11 key assurance areas. These represent areas of internal control that we believe to be essential to the proper functioning of the council. Systems and controls in each area need to be operating effectively to maximise the likelihood that the council's objectives are achieved without undue exposure to risk. The 11 key assurance areas are shown in figure 1 on the following page.

Figure 1: 11 key assurance areas.

11 key assurance areas	
Strategic planning	
Organisational governance	
Financial governance	
Risk management	
Information governance	
Performance management and data quality	
Procurement and contract management	
People management	
Asset management	
Programme and project management	
ICT governance	

- 15 Overlaid on the key assurance areas are two further components of the framework:
- ▲ Organisational risks
 - ▲ Organisational objectives
- 16 The risks that are most important for audit planning are those set out in the council's strategic risk register. Where appropriate, operational risks are considered as part of individual audit assignments. However, the risks on the strategic risk register are those considered most significant to the achievement of the council's objectives and therefore are the main focus

for internal audit planning. There are currently 15 risks on the strategic risk register³.

- 17 The council's priorities have been set by the City Mayor and are organised across a set of 10 thematic areas which address a number of socioeconomic challenges facing the city. The council's priorities are also articulated across its key strategy documents.
- 18 The council's strategic ambitions, and the mechanisms by which they are delivered, are a key consideration when identifying and prioritising engagements for inclusion in the internal audit work programme.

Identification of initial internal audit priorities

- 19 Internal audit maintains a long list of all areas within the council that could potentially be audited. It is not possible to review all areas in any one year. Instead, we prioritise audits by considering potential risks in each area at the time of the assessment and by considering requirements for assurance coverage.
- 20 The opinion framework provides the structure for internal audit to take informed decisions on priorities.
- 21 When identifying internal audit priorities, we apply the framework to determine whether planned work will, when taken as a whole, provide sufficient coverage to provide an informed annual opinion.
- 22 The process followed to determine audit priorities, and develop the internal audit work programme, is illustrated in figure 2 on the following page.

³ Strategic and operational risk registers update: 22 November 2023 Governance and Audit Committee meeting.

Figure 2: The opinion framework

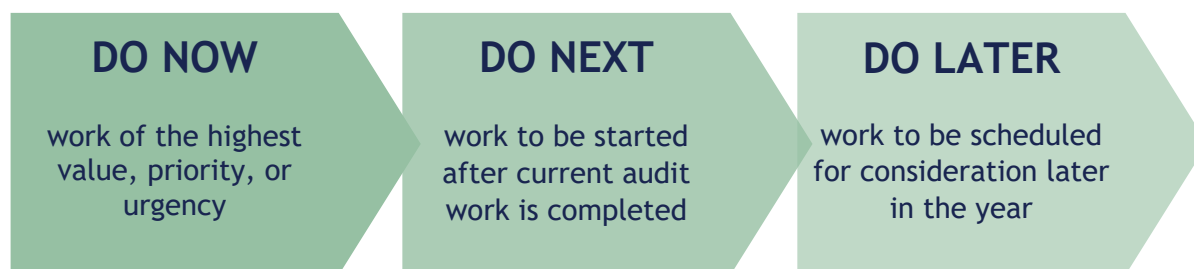
THE OPINION FRAMEWORK



The 'do now', 'do next', 'do later' audit prioritisation system

- 23 Once initial internal audit priorities have been identified through the application of the opinion framework, we then overlay a second system of prioritisation. This system allows us to determine the relative priority of audits included in the indicative work programme.
- 24 This second prioritisation system sees audits assigned to one of three categories, as shown in figure 3 below.

Figure 3: 'do now', 'do next', 'do later' prioritisation system.



- 25 Decisions on which of the three categories internal audit work falls into will be based on judgement, and will be made having given consideration to the prioritisation factors in table 1 below. These will result in internal audit work being considered a relatively higher or lower priority at the time of assessment.

Table 1: Internal audit prioritisation factors.

Prioritisation factors	
▲ where we have no recent audit assurance, or other sources of information	▲ where controls are changing and / or risks are increasing
▲ where we are following up previous control weaknesses	▲ where specific issues are known to have arisen
▲ areas that are of significant importance to the council, for example they reflect key objectives or high priority projects	▲ areas that provide broader assurance, for example corporate policies and frameworks
▲ areas that need to be covered to enable us to provide an annual opinion	▲ where there are time pressures or scheduling requirements, for example grant deadlines, or where work is scheduled to minimise the impact on council service areas at busy times

- 26 The above factors will be used on an ongoing basis to decide what internal audit work will be carried out, and when, during the course of the year. These decisions will be made in consultation with the council through our ongoing dialogue with senior officers. Individual pieces of work will move

between the three categories, as required, based on their priority at the time of assessment.

- 27 For example, an audit scheduled for quarter two to minimise the impact on a service area may initially be classed as to 'do later' but will become 'do now' as we move into quarter two. Similarly, an audit of a council project classed as 'do now' because it represents an area of high importance may move from 'do now' to 'do next' or 'do later' if the project slips or planned work cannot be undertaken until a specific point is reached. Towards the end of the year, audits classed as 'do later' are likely to be deferred until the following year.
- 28 The committee will be provided with information on current internal audit priorities throughout the year as part of regular progress reporting.

2024/25 Internal audit work



- 29 Up to 31 July 2024, the council's internal audit service has been provided by Leicestershire County Council. From 1 August 2024, the internal audit service has been provided by Veritau. The proposed internal audit work programme for the remainder of 2024/25, to be delivered by Veritau, is included in annex A.
- 30 The overall level of service to be provided by Veritau is based on an indicative number of days, for planning purposes (533 for the remainder of 2024/25). The proposed areas of coverage in the 2024/25 work programme have been subject to consultation with strategic directors and their Directorate Management Teams, the Corporate Governance Panel, and with other senior officers from across the organisation.
- 31 Internal audit activity is organised into several functional programme areas. These areas are set out in table 2 below.

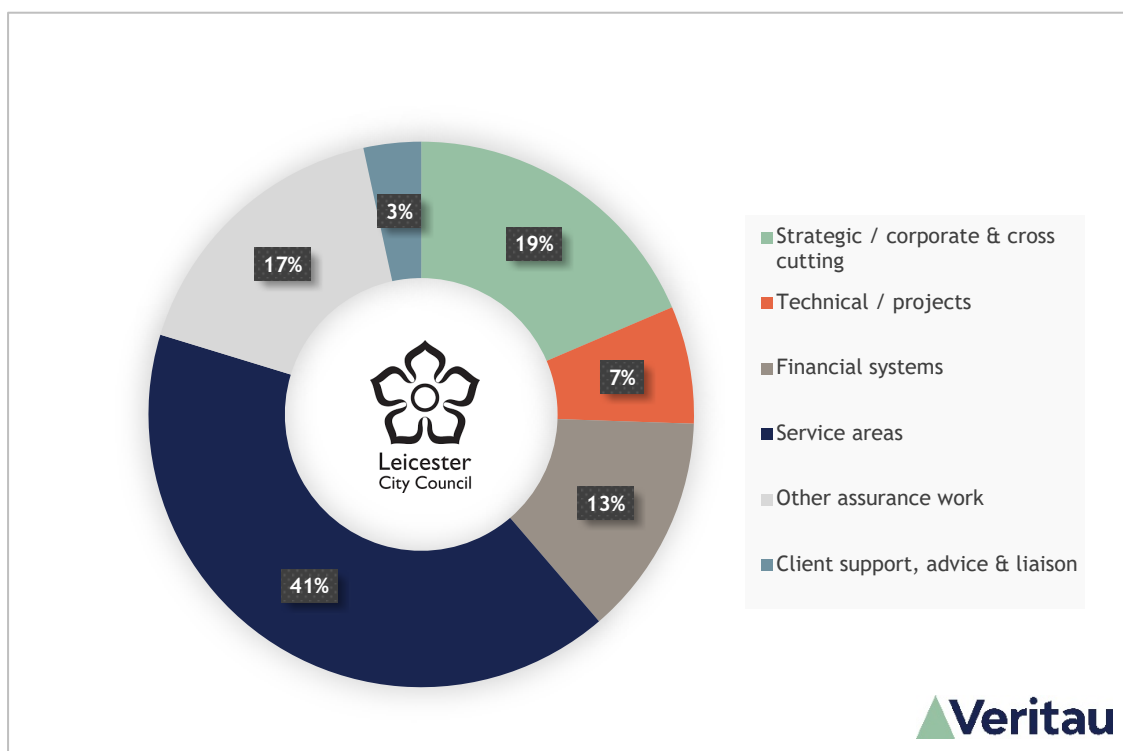
Table 2: Work programme functional areas.

Programme area	Purpose
▲ Strategic / corporate & cross cutting	To provide assurance on areas which, by virtue of their importance to good governance and stewardship, are fundamental to the ongoing success of the council.
▲ Technical / projects	To provide assurance on those areas of a technical nature and where project management is involved. These areas are key to the council as the risks involved could detrimentally affect the delivery of services.
▲ Financial systems	To provide assurance on the key areas of financial risk. This helps provide assurance to the council that risks of loss or error are minimised.
▲ Service areas	To provide assurance on key systems and processes within individual service areas. These areas face risks

	which are individually significant but which could also have the potential to impact more widely on the operations or reputation of the council if they were to materialise.
▲ Other assurance work	An allocation of time to allow for continuous audit planning and information gathering, grant certifications, unexpected work, and the follow up of work we have already carried out (ensuring that agreed actions have been implemented by management).
▲ Client support, advice & liaison	Work we carry out to support the council in its functions. This includes the time spent providing support and advice, and liaising with staff.

32 Figure 4 below shows the proportion of time we expect to spend delivering work across each area during the year.

Figure 4: 2024/25 work programme: indicative functional area split.



33 The committee should be aware that consultation on internal audit priorities within Public Health and adult social care is still ongoing. In the case of audit social care, initial consultation has been held with senior management, but priorities are likely to become clearer once a review of the savings programme has been concluded (expected by the end of September). The work programme will then be updated in October, with audit areas confirmed and scheduled.

34 It is important to re-emphasise two important aspects of the programme as a whole. Firstly, the audit activities included in annex A are not fixed.

As described earlier in this report, work will be kept under review to ensure that audit resources are deployed to the areas of greatest risk and importance to the council. This is to ensure the audit process continues to add value.

- 35 Secondly, it will not be possible to deliver all audit activities listed in the programme. The programme has been intentionally over-planned, to build in flexibility from the outset while also providing an indication of the priorities for work at the time of assessment. Over-planning the programme enables us to respond quickly if we need to commence work in other areas of importance to the council when risks and priorities change during the year.

ANNEX A: internal audit work programme 2024/25

Programme area	Internal audit activity
Strategic / corporate & cross cutting	<ul style="list-style-type: none"> ▲ Organisational development / workforce planning ▲ Risk management ▲ Strategic Procurement Panel and business case management ▲ Information governance: case management ▲ Agency staff ▲ Procurement compliance (inc. waivers) ▲ Contract management: City Development & Neighbourhoods ▲ Contract management: Social Care & Education
Technical / projects	<ul style="list-style-type: none"> ▲ ICT: network security ▲ ICT: access control
Financial systems	<ul style="list-style-type: none"> ▲ Sundry debtors ▲ Ordering and creditor payments ▲ Housing benefits ▲ Council Tax and NNDR: arrears management ▲ Housing rents ▲ Leaseholder statement of accounts
Service areas	<ul style="list-style-type: none"> ▲ School central finance ▲ School themed audit 1: purchasing and best value ▲ School themed audit 2: TBC

Programme area	Internal audit activity
	<ul style="list-style-type: none"> ▲ Traded services to schools (educational psychology) ▲ Element 3 (high needs) funding: Leicester College ▲ Children leaving care ▲ Adults commissioning: NHS ▲ Direct payments / short breaks (adults and children) ▲ Adult social care audit 3: TBC ▲ Homelessness (high-cost accommodation) ▲ Landlord regulatory services ▲ Asylum seekers ▲ Levelling Up projects ▲ Gladstone membership management system ▲ Concerto: system implementation support ▲ Concerto: post-implementation review ▲ Acquisitions and disposals
Other assurance work	<ul style="list-style-type: none"> ▲ Grant certifications ▲ Follow-up of previously agreed management actions ▲ Continuous audit planning and additional assurance gathering to help support our opinion on the framework of risk management, governance and internal control ▲ Attendance at, and contribution to, governance- and assurance-related working groups
Client support, advice & liaison	<ul style="list-style-type: none"> ▲ Committee preparation and attendance ▲ Key stakeholder liaison ▲ Support and advice on control, governance, and risk related issues

Proposed internal audit charter



- 36 As described previously, the work of internal audit is governed by the Public Sector Internal Audit Standards (PSIAS). These standards require that the purpose, authority, and responsibility of the internal audit service be defined in an internal audit charter.
- 37 The standards also require the Head of Internal Audit to periodically review the internal audit charter and present it to senior management and 'the board' for approval. The Governance and Audit Committee fulfils the role of 'the board' in relation to internal audit standards and activities.
- 38 Since 1 August 2024, the council's internal audit service has been provided by Veritau. A proposed new internal audit charter, reflecting the intended relationship between Veritau and the council, is included in appendix 2 for approval by the committee.
- 39 In January 2024, the professional body for internal audit, the Institute of Internal Auditors, released a new set of standards known as the Global Internal Audit Standards (GIAS). The GIAS will take effect from 9 January 2025. We expect CIPFA to issue an update to the PSIAS in autumn 2024 to reflect the GIAS, and to provide any local authority interpretations. The internal audit charter may therefore need to be revised following release of the new PSIAS.