



Leicester
City Council

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Audit & Risk Committee

16th July 2013

Internal Audit – First and Second Quarter Operational Plans 2013-14

Report of the Director of Finance

1. Purpose of Report

1.1. Finance Procedure Rule 7.2.1 states that:

‘The Head of Audit shall prepare and agree with the Chief Finance Officer an Annual Audit Operational Plan which will set out the intended work of Internal Audit over the coming year. The plan shall be based on an objective assessment of need arising from an analysis of risk and shall be approved, but not directed, by the Audit Committee.’ (sic)

1.2. The Internal Audit Plan for 2013-14 has been prepared on the basis of broad areas of audit coverage rather than detailed lists of specific audits. It has been approved by the Strategic Management and Operational Boards and by the Audit & Risk Committee (9th April 2013).

1.3. In addition, the terms of reference of the Audit & Risk Committee include:

‘To consider, challenge and approve (but not direct) Internal Audit’s strategy and plan and monitor performance on an annual basis.’

1.4. This report presents to the Committee the detailed operational audit plans for the first two quarters of the financial year 2013-14.

2. Recommendations

2.1. Members of the Committee are asked to note the Internal Audit operational plans for the first two quarters of 2013-14 (attached: Appendix A – Quarter 1 and Appendix B – Quarter 2).

3. Report

3.1. Rather than presenting a detailed list of specific audits, the annual audit plan is grouped into areas of audit. The intention is that, given the considerable uncertainties the Council currently faces, the audit plan can be readily adjusted to

reflect changes in risks and priorities while maintaining a sufficiency of audit coverage for each of the relevant areas.

- 3.2. The generic annual plan is then translated into detailed quarterly plans as the year progresses, setting out Internal Audit's intended work for each forthcoming quarter. These plans take into account emerging risks and requests for audit involvement alongside seasonal or other external factors that influence the timing of audit work. For example, school audits fall within the school terms and are chiefly planned to coincide with the new academic year, while other audits such as grant certifications are determined by the submission deadlines of the relevant funding agency.
- 3.3. The detailed operational plans for the first two quarters of 2013-14 are attached below at Appendices A and B. The following are worthy of note:
 - a) **Coordination with KPMG under the new external audit arrangement.** The arrangement with KPMG promises a 40% reduction in external audit fee but this is dependent among other things on their ability to rely on Internal Audit work on the main controls in the **main financial systems**. KPMG are due to carry out their main audit visit during the second quarter of the financial year. Internal Audit has therefore undertaken some essential testing of the main financial systems during the first quarter. We have liaised with KPMG on their expectations in terms of the systems covered and the specific controls within them. KPMG have indicated that their remit includes the essential controls in the supporting IT systems, so Internal Audit work is covering these as well. Therefore, the allocation of time to this area remains a block allocation and the total remains subject to change.

If KPMG cannot rely on Internal Audit's work, for whatever reason, they reserve the right to undertake further testing themselves and charge the Council an additional fee.

It is recognised that the first quarter is particularly busy for finance staff as they close down the old-year accounts. Internal Audit is sensitive to this but we are bound by the need to have our work ready for KPMG from late July onwards. We are endeavouring to keep any disruption to a practical minimum; for example by conduct some of this work remotely by way of IT-based interrogates and analysis.

- b) **Schools** audit work will concentrate on the Schools Financial Value Standard, with a reduced test programme based more on risk. A process of consultation with schools is currently under way. There is relatively little audit work on schools in the first and second quarters; partly because the second quarter coincides with the school summer holidays. Schools audit work will be a priority in the third quarter, in line with the new academic year.
- c) **Corporate governance** will receive coverage. There will be work in conjunction with the City Barrister & Head of Standards and with all Directors

on rationalising the process that leads ultimately to the preparation of the Council's Annual Governance Statement (AGS). The aim is to promote an efficient way of assessing the degree of compliance with the Local Code of Corporate Governance, with some independent verification by Internal Audit. The outcome, along with the draft AGS, should be reported to the Audit & Risk Committee at its September meeting.

- d) **Contract audit** will receive coverage as the Council continues to strengthen its arrangements in this high-risk area. The emphasis will be Property Services and ICT contracts plus off-contract purchasing across the Council.
- e) **Value for Money (VFM) audit.** One area that has been put forward for review following a request to Directors for suggestions is the efficiency and effectiveness of cost recovery by the Council's various regulatory services, so this has been included.
- f) There is only modest coverage of **EMAS** (the Eco-Management and Audit Scheme) in the first and second quarters pending a corporate decision on the Council's continued accreditation. Internal Audit is maintaining some coverage, however, including involvement in the external verification visit in July.
- g) **IT audit** in the first quarter is dominated by the main financial systems work mentioned at a) above. In the second quarter, IT audit will consider two current major developments in data handling plus a review of hardware stock control, which will include potential VFM considerations.
- h) **Grants and other certification audits.** There are a number of these scheduled for the 2nd quarter, in line with external deadlines imposed either by the funding agencies or by the external auditor. In the latter case, this is a continuation of previous practice whereby Internal Audit undertook the essential audit testing and the external auditor – previously the Audit Commission – relied on our work. The intention is partly to reduce the fee that would otherwise be paid to the external auditor. Two other certification audits covering property-related charges are also anticipated.
- i) In addition, the first quarter allows for completion of **residual 2012-13 audit reviews.**

3.4. The move to quarterly planning is intended to align Internal Audit's work as closely as possible to immediate priorities. This allows what were previously 'commissioned' audits that fall within the remit of the statutory audit service to become fully part of the audit plan. The aim is then for Internal Audit to deliver the whole of this more flexible plan, subject to factors beyond Internal Audit's direct control. Having said that, urgent requirements may still arise that cannot wait until the next quarterly plan and have to be accommodated immediately on the basis of risk to the Council.

3.5. Further quarterly detailed audit plans will be provided to the Audit & Risk Committee showing the actual audits that are planned to be carried out in the following quarter. These will be supplemented by progress reporting on the completion of the previous plans, with periodic update reports to this Committee.

4. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

4.1. Financial Implications

There are no direct financial implications arising from this report. However, as a result of the work carried out there would be an expectation that implementing recommendations made by Internal Audit will improve the effectiveness, efficiency and economy of service delivery, with potential for consequential reductions in cost or improvements in quality.

4.2. Legal Implications

The provision of ‘an adequate and effective internal audit’ is a statutory requirement under regulation 6 of the Accounts & Audit Regulations 2011. The whole audit process is also intended to give assurance that all the activities audited have in place satisfactory arrangements to ensure compliance with relevant law and regulation applicable within the scope of the particular audit review.

4.3. Climate Change Implications

This report does not contain any significant climate change implications and therefore should not have a detrimental effect on the Council’s climate change targets.

5. Other Implications

Other Implications	Yes/No	Paragraph/References within the Report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	Yes	3.3 (f): EMAS
Crime and Disorder	Yes	Whole report. Part of the purpose of Internal Audit is to give assurance on the controls in place to prevent fraud and other irregularity such as breach of data security.
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

Other Implications	Yes/No	Paragraph/References within the Report
Risk Management	Yes	The whole report concerns the Internal Audit process, a main purpose of which is to give assurance to Directors and this Committee that risks are being managed appropriately by the business.

6. Background Papers – Local Government Act 1972

6.1. Files held by Internal Audit.

7. Consultations

7.1. The audit plan has been prepared in consultation with the Audit & Risk Committee, Strategic and Operational Directors; Finance Divisional Management Team (which includes all Heads of Finance); the Head of Information Security and the external auditor (KPMG).

8. Report Author

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Appendix A: Internal Audit Operational Plan – 1st quarter 2013-14

Set out below are the individual audits expected to be started in the first quarter of 2013-14.

This is subject to:

- Client or process availability and readiness for audit
- Internal Audit resources
- Urgent commissioned work.

Audit	Lead department	Audit area	Planned days	Scope	Notes
Significant Financial Systems	Financial Services	Significant Financial Systems	150	Review of key controls as identified by the external auditor. This will include the main ledger system and interfaces with significant financial feeder systems. It is expected to cover, among other things, journals, bank reconciliations, suspense accounts and feeder account reconciliations as well as essential controls in main systems such as debtors, creditors, and payroll.	External audit reliance by KPMG anticipated. Internal Audit must have completed its relevant work in time for that if the Council is to avoid criticism and possible supplementary fees. The high block allocation of days under this heading derives from the range of systems potentially covered. It will be made up of various smaller items. The actual total amount may vary depending on requirements and availability of information. Further work on main financial systems will also be undertaken later in the year.
IT General Controls	Information & Customer Access	IT audit	20	Access controls and user management for the main financial systems.	As above; main financial systems to be confirmed. This work may also be reviewed by KPMG in connection with their external audit work.
Email storage	Information & Customer Access	IT audit	20	The audit will look at the volumes of data being retained and seek to assess whether email is being used effectively, plus any VFM implications.	
InPhase BSM	Information & Customer Access	IT audit	5	IT general controls in new performance management system.	Audit overview of security and functionality.

Appendix A: Internal Audit Operational Plan – 1st quarter 2013-14

Audit	Lead department	Audit area	Planned days	Scope	Notes
Schools Audit Annual Report for 2012-13	Children's Services	Schools	5	Review of 2012-13 schools audit findings, including a summary paper for publication on the Schools' Extranet.	
Schools Financial Value Standard (SFVS) Health-checks	Children's Services	Schools	20	Review of Schools Financial Value Standard (SFVS) self-assessment returns received from schools, including visits to a sample of schools to verify the quality and accuracy of the responses.	To be done in the summer term whilst the information on the SFVS returns is still current. The number of schools covered will be determined after 31.3.13 from the returns actually received. A memo-style report is to be issued to each school visited and a summary report to Children's Finance. This audit and the next one will help to inform the annual statement on SFVS submitted by the Director of Finance to the DfE.
Schools - Thematic Audit – Governance and Financial Management (Compliance with SFVS)	Children's Services	Schools	25	SFVS audits for sample of schools that did not submit an SFVS return by 31.03.2013.	To demonstrate that the City Council as education authority is monitoring implementation of SFVS and taking this into account in their programme of audit. A report will be issued to each sample school. The number of schools covered will be determined after 31.3.13 from the returns actually received.
Financial assurance for Maintained Schools with 6 th Form Funding	Children's Services	Schools	15	Verification of the completeness and accuracy of sixth form data returns at a sample school, particularly the sixth form pupil numbers, to ensure that only eligible pupils are funded.	This is in fulfilment of a requirement of the Director of Finance in accordance with the associated grant return and use of funds statement. This work depends on the availability of information at the sample school.

Appendix A: Internal Audit Operational Plan – 1st quarter 2013-14

Audit	Lead department	Audit area	Planned days	Scope	Notes
Corporate Governance	Corporate	Corporate Governance	10	The assurance processes in place to determine compliance with the Council's Local Code of Corporate Governance and do so in a way that balances administrative efficiency with a robust and reliable assessment.	This follows a report to SMB 2.4.13 and Audit & Risk Committee 9.4.13 on the Council's assurance framework. It is intended to contribute towards a corporate overhaul of the process of preparing the Annual Governance Statement and report back to Audit & Risk Committee in time for the external auditor's planned work in August.
VfM audit of Regulatory Services Costs	CD&N	Value for Money	15	Review of the arrangements for recovering costs due from enforcement action and successful prosecutions by the various regulatory services.	Regulatory services including Planning, Building Control, Trading Standards and Environmental Health investigate suspected breaches of legislation and in some instances undertake prosecutions. If successful, the Council is usually able to claim its legal costs and the costs of the investigation process. There is a need for assurance that the arrangements in place for collecting all income due in respect of regulatory enforcement activity are operating effectively.
Property Services Contracts	CD&N	Contract audit	25	Review of contract arrangements within Property Services, with particular emphasis on contract management.	Property Services is a major service area with some high-value contracts, so there is a need to ensure that the arrangements for entering into and managing contracts are sound.
Contract Non-Compliance	Financial Services	Contract audit	20	The review will look at procedures in place for monitoring contracts and granting extensions and waivers.	There are concerns about the number of waivers being issued and the justification for them.

Appendix A: Internal Audit Operational Plan – 1st quarter 2013-14

Audit	Lead department	Audit area	Planned days	Scope	Notes
LCC Bus Operators Grant	CD&N	Grant certification	15	Grant submission in line with the certification guidelines.	IA certification required as part of grant conditions. The first six-monthly return (October 2012 - March 2013) is due by the end of June 2013.
Growth Fund	CD&N	Grant certification	15	Grant submission in line with the certification guidelines.	The Council is the accountable body for this grant and has to submit the grant certification. The deadline is expected to be in mid-June.
EMAS	CD&N	EMAS	10	Two 'Level 3' EMAS establishment audits at locations to be decided based on risk. The focus is likely to be the management of waste. Internal Audit will also maintain a watching brief, with participation where needed, in the process of deciding on whether the Council wishes to continue with its EMAS accreditation.	This is a provisional allocation, to maintain EMAS audit in preparation for the external verification health-check visit by external verifiers LRQA in July. The policy decision on the Council's continued EMAS accreditation is anticipated by September.
		TOTAL	370		

Appendix B: Internal Audit Operational Plan – 2nd quarter 2013-14

Set out below are the individual audits expected to be started in the 2nd quarter of 2013-14.

This is subject to:

- Client or process availability and readiness for audit
- Internal Audit resources
- Urgent commissioned work.

Audit	Lead department	Audit area	Planned days	Scope	Notes
Housing Benefits	Financial Services	Significant Financial Systems	30	The management processes and controls in the Housing Benefits service.	The Housing Benefits service remains one of the most significant of the Council's financial processes. It has not been subject to specific Internal Audit systems review for some time.
Loans & Investments	Financial Services	Significant Financial Systems	25	The controls in place to safeguard the Council in its loans and investments activities.	This is a high-risk area that is overdue for audit review.
Off-Contract Purchases	Financial Services	Contract audit	25	The review will look at the contract database for accuracy and completeness. In particular, it will look at this in the context of off-contract purchasing.	It is important that the Council's interests are protected in its contractual dealings with third parties.
IT Contracts	Information & Customer Access	Contract audit	25	This audit will consider IT contracts in terms of compliance with proper procedures.	IT is a major area of spend, so there is a need to ensure contract arrangements are sound and the Council is achieving value for money.
Section 106 Agreements (Planning)	CD&N	Contract audit	15	The review will look at compliance with s106 agreements.	Though not 'contracts' as such, similar principles will apply. The audit will review whether agreed income has been received in appropriate cases and other conditions have been fulfilled.

Appendix B: Internal Audit Operational Plan – 2nd quarter 2013-14

Audit	Lead department	Audit area	Planned days	Scope	Notes
Blue Badge Scheme	Corporate Resources & Support	Regularity, cash and establishment audits	10	Initially, this audit will review processes to ensure all income is properly accounted for.	The audit is intended to give assurance on the accounting arrangements for Blue Badge income.
Corporate Governance and AGS	Corporate Resources & Support	Corporate Governance	20	Further work on the processes leading up to the Council's published Annual Governance Statement (AGS).	There may be some associated corporate governance audit work on project management.
Customer Data Integration (CDI)	Information & Customer Access	IT audit	15	Review of the staff portal and related governance issues plus data integrity.	
IT Hardware Stock Control	Information & Customer Access	IT audit	15	Stock control audit of the processes for managing IT hardware.	VFM considerations also.
Lync Migration	Information & Customer Access	IT audit	15	Review of migration process and local business continuity arrangements for the new telephone system.	
Schools Financial Value Standard (SFVS) returns analysis	Children's Services	Schools	5	Analysis of the returns received from schools on their self-assessments under the SFVS and the outcomes of Internal Audit's own work on a sample of schools.	The outcome is to be published on the schools extranet.
Audit of draft EMAS Environmental Statement for 2012-13	CD&N	EMAS	10	Independent review of the draft public environmental statement including compliance with requirements and evidence to support its content.	Though the Council is reviewing its continued accreditation for EMAS, at the time of writing it remains an EMAS organisation and the published environmental statement is a central component of the Council's public accountability for its environmental stewardship.

Appendix B: Internal Audit Operational Plan – 2nd quarter 2013-14

Audit	Lead department	Audit area	Planned days	Scope	Notes
NNDR Return	Financial Services	Grant Certification	10	Certification of return in line with the guidelines provided.	Internal Audit preliminary work, prior to final sign-off by external auditor.
Teachers' Pension Return	Financial Services	Grant Certification	10	Certification of return in line with the guidelines provided	Internal Audit preliminary work, prior to final sign-off by external auditor.
Pooling of Housing Capital scheme	Financial Services	Grant Certification	10	Certification in line with the guidelines provided.	Internal Audit preliminary work, prior to final sign-off by KPMG as external auditor.
Local Transport Plan	CD&N	Grant Certification	15	Certification in line with grant determination.	To give independent confirmation on the appropriate use of Local Transport Capital Block funding.
Leaseholder Reserve Fund	Housing	Certification	15	Leaseholder charges certification to ensure compliance with the relevant guidelines.	Independent annual certification required under the leaseholder scheme for right-to-buy properties.
Service charges	CD&N – Property Services	Certification	10	Independent audit of service charges paid by the lessee of Phoenix Square for the year ending 31 st March 2013.	Under the lease agreement there is requirement for the services charges recharged by LCC (Property Services) to be independently audited. Internal Audit has been requested to carry out this audit, having provided this service last year.
		TOTAL	280		