



Leicester
City Council

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Strategic Management	1 st October 2013
Operational Board	2 nd October 2013
Finance Management Team	3 rd October 2013
Audit & Risk Committee	24 th October 2013

Internal Audit – 3rd Quarter Operational Plan 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 Boards and Committee the detailed operational audit plan for the third quarter 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 third quarter of 2013-14, attached at Appendix A.

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 continuing 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 plan for the third quarter of 2013-14 is attached at Appendix A. The following are worthy of note:
 - a) **Significant financial systems.** Coverage of the Council's main financial systems continues. These audits take as their starting point the key controls previously identified by the Council's external auditors. The intention is to conduct the audits in such a way that, should they wish to, KPMG as the Council's current external auditors can place reliance on this work when they undertake their opinion audit next year on the current year's financial statements. As with most audits, however, the specific terms of reference will be agreed with relevant client management at the commencement of each audit.
 - b) **Schools** audit work is a priority in the third quarter, in line with the new academic year. It will concentrate on certain areas of the *Keeping Your Balance* financial guidance issued jointly by Ofsted and the Audit Commission. However, in order to accommodate reduced Internal Audit resources and in line with consultation with schools, the audit test programme has been refined further with a greater concentration on risk.
 - c) **Contract audit.** Work will continue on the programme of contract audits looking both at individual departments or service areas (Adults & Housing in Q3) and aspects of contracting (framework contracts in Q3).
 - d) **Value for Money (VFM) audit.** The present financial climate makes the need to secure value for money ever greater. Directors have been asked for suggestions and the third quarter plan includes areas that have been brought to the attention of Internal Audit. A regular theme in VFM audits is the extent to which expenditure is based on sound decision-making processes including compliance with Council policies and procedure rules.

- e) With the Executive decision to continue with the Council's registration under **EMAS** (the Eco-Management and Audit Scheme), the third quarter sees a reinstatement of audit work albeit in a reduced way. Further decisions remain to be made on the level and extent of Internal Audit work pending the next external assessment by the Council's external EMAS verifiers, LRQA, later in the year. The Carbon Board is also being consulted for its views on the audit process and plans. The aim is to streamline the audit process given reduced resources and to focus more on the areas of greatest risk such as legislative compliance, and potential financial savings such as energy usage. In the meantime, there is an interim programme of EMAS audits in the third quarter.
- f) **IT audit** in the third quarter is dominated by further work on the Council's compliance with data protection requirements plus review of the new performance management system alongside non-IT audit work in the same area. We have recently recruited a technical IT Auditor by means of internal secondment and a priority is to reinstate the security 'penetration testing' of new and upgraded IT systems in line with established corporate priority. However, we are not at that point yet so the audit plan does not include such work. It is worthy of note that for Internal Audit to do this tends to be considerably cheaper than the engagement of specialist external firms who also provide this essential service.
- g) **Grants certification audits.** The third quarter plan includes the regular audit certification of the Council's latest six-monthly claim for Bus Service Operators Grant (BSOG).

It should be borne in mind that the quarterly plans refer to audits due to be started. Inevitably, they are not all completed within the quarter so there will be residual work to complete audits started in previous quarters.

- 3.4. The move to quarterly planning is intended to align Internal Audit's work as closely as possible to current 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 Boards and 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 the 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

Other than the reference to EMAS audits (see table below), 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 (e): EMAS audit.
Crime and Disorder	Yes	Whole report, and particularly 3.3(f) IT audit. 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	
Risk Management	Yes	The whole report concerns the Internal Audit process, a main purpose of which is to give assurance to Directors and the Audit & Risk 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.

8. Report Author

- 8.1. Steve Jones, Audit Manager, Internal Audit, Financial Services, x37 1622 (0116 454 1622). Steve.jones@leicester.gov.uk

Set out below are the individual audits expected to be started in the third 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
Corporate Creditors	Financial Services	Significant Financial Systems	25	The processes for paying the Council's creditors.	Creditor payments represent a major part of Council expenditure and the system is subject to regular testing by Internal Audit. The creditor payment process is one of the main components of the Resource Management System.
Debtors	Financial Services	Significant Financial Systems	20	The processes for invoicing and collecting income from the Council's debtors.	Major income stream for the Council.
Access to Records (Children's)	Information & Customer Access Children's Services	IT audit	15	This audit follows earlier work on the Council's response to personal data requests from the affected individuals. It will follow up the previous audit and consider the wider risk of failure to respond to data requests by social workers handling open cases.	
Self-service password re-set process	Information & Customer Access	IT Audit	5	Independent review of the self-service password reset facility currently being rolled out.	Requested by Head of Information Security, with particular reference to the acceptability of the process in the light of the extensive use of webmail.

Appendix A
Internal Audit 3rd quarter operational plan 2013-14

Audit	Lead department	Audit area	Planned days	Scope	Notes
Schools financial audits (12 schools)	Children's Services	Schools	72	Routine audits of the financial management arrangements at 12 schools against the higher-priority areas of the <i>Keeping Your Balance</i> good practice guidance issued by Ofsted and the Audit Commission.	The audit process has been refined further to accommodate consultation with schools and reduced Internal Audit resources.
Performance Management	Corporate	Corporate Governance	20	Review of the new performance management process and supporting IT system with particular reference to the performance targets supporting the <i>City Mayor's Delivery Plan</i> .	This audit will be done in conjunction with already-planned IT audit work on the InPhase performance management database.
VfM audit Use of Consultants	Corporate	Value for Money	10	Sample-based review of whether correct procedures are being followed in engaging consultants and VFM is being achieved.	A review of consultancy expenditure has shown an upward trend and our work will look at whether value for money is being achieved.
VfM audit Printing Contracts	Corporate	Value for Money	10	The arrangements for bulk printing.	Concern that existing contractual arrangements may not represent optimum value for money.
VfM audit Stores	Corporate	Value for Money	10	To be determined at a meeting to be held in October.	Included at Director of Finance suggestion.
Framework Contracts	Corporate	Contract audit	30	The arrangements for the use of framework contracts, to ensure that they operate in the best interests of the Council.	Concerns have been raised by the Chief Operating Officer that framework contracts are not properly used.
Adult Social Care, Health & Housing (A&H) Department Contracts	ASC&H	Contract audit	25	A review of contract arrangements within the Adult Social Care division of the Department, with particular emphasis on contract management.	Major service area with high-value contracts, so there is a need to ensure the arrangements for entering into contracts are sound.

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Audit	Lead department	Audit area	Planned days	Scope	Notes
LCC Bus Service Operators Grant	Children's	Grant Certification	10	Grant submission in line with the certification guidelines.	IA certification required as part of grant conditions. The latest six-monthly return (April 2013 – September 2013) is due by the end of December 2013.
Museums Assets & Inventories	CD&N	Cash audits and establishments	20	Review of the completeness and accuracy of the Museums Inventory.	Recent work by the Risk Management & Insurance Team has identified significant discrepancies in valuations of the museum inventory.
EMAS (8 'Level 3' establishment audits)	CD&N	EMAS	40	<p>Eight EMAS establishment audits decided on the basis of risk. 'Level 3' audits are compliance audits undertaken at specific establishments or sites such as depots and leisure centres.</p> <p>This programme of audits covers various operational activities based at Leycroft Road, i.e. Highways, Transport, Cleansing and Housing Stores, as well as leisure centres, a parks depot and the Housing training centre.</p>	This is an interim plan to maintain EMAS audit in preparation for the external verification health-check visit by the external verifiers LRQA later on in the year. The Carbon Board is being consulted about EMAS audit priorities and the coordination of the implementation of action to address non-compliances identified.
EMAS Annual Report 2012-13	CD&N	EMAS	3	Review of 2012-13 EMAS audit findings.	This report will feed into the annual EMAS Management Review report (prepared by the Environment Team for presentation to the Carbon Board).
		TOTAL	315		