



Leicester
City Council

Internal Audit
Leicester City Council

Internal Audit Plan 2014-15

April 2014

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1. Introduction

- 1.1. Internal Audit is an essential part of the Council's corporate governance and management arrangements. It provides an objective review and assessment of the adequacy of internal control arrangements in place to manage the risks the Council faces in seeking to achieve its objectives. Service improvement is a key objective of Internal Audit and is an important part of the audit process.
- 1.2. Internal Audit seeks to deliver assurance on the management of risk and the effectiveness of internal control systems in operation at the City Council. Its resources are, however, finite, so its work is planned to ensure that available resources are used effectively and efficiently and are targeted at those areas posing the greatest risk to the achievement of the Council's objectives or are otherwise aligned with strategic priorities. To do this, Internal Audit prepares an annual audit plan. This is done through an assessment of risks and audit priorities including consultation with all directors, the external auditor and the Audit & Risk Committee.
- 1.3. This document presents the Internal Audit Plan for the financial year 2014-15. Set out below are:
 - The basis of the preparation of the Internal Audit Plan for 2014-15 and the themes emerging
 - The contribution of the Internal Audit Plan to the Council's corporate governance and control arrangements
 - The relationship between the work of Internal Audit and the external auditor.
- 1.4. The audit plan does not list the individual audits anticipated; rather, it is presented as the essential areas of audit coverage within which specific audits will be undertaken. The reasons for this are:
 - The continuing uncertainties presented by the severe financial pressures the Council faces
 - The potential for priorities and associated risks to change during the year, such that the focus of audit effort in a particular area may change
 - The continuing change in the Council's organisational structures and management responsibilities.
- 1.5. The audit plan is a therefore statement of intent. Whilst every effort will be made to deliver the plan, Internal Audit recognises that it needs to be flexible and prepared to revise its activities in response to changing circumstances or emerging risks. However, this flexibility may not be sufficient to cope with all changes required. It may also prove necessary to remove planned audits from our work plans in order to address emerging issues of greater risk.

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- 1.6. In addition, Internal Audit is exploring opportunities to provide audit services to external organisations on a traded basis. Though this may not be undertaken for profit, any fee income earned helps to sustain the audit service available to all client organisations including the City Council at a time of financial pressure. This particularly applies to technical specialist areas of audit such as IT and contract audit. However, such work also has implications for the availability, including timing, of audit resources available to the City Council. It is important to note also that any audit work undertaken for external clients does not form part of this audit plan.
- 1.7. [Appendix A](#) identifies the areas of audit coverage and the rationale for their inclusion in the audit plan for 2014-15.

2. Compilation of the Internal Audit Plan for 2014-15

2.1. Context

- 2.1.1. The annual audit plan identifies the categories of audits to be carried out. In accordance with the *Public Sector Internal Audit Standards*¹, the audit plan for 2014-15 is based on risk. The principal source of information on identified risks has been the divisional risk registers, supplemented by consultation with all directors both individually and collectively via the Strategic and Operational Boards; the Director of Finance; and the Finance Management Team, to identify the priorities put forward for audit coverage. The Carbon Board have also been consulted about the Eco-Management & Audit Scheme (EMAS) environmental management audit work. The plan has also been shared for consultation with KPMG as the Council's external auditor. Final approval is the responsibility of the Council's Audit & Risk Committee.
- 2.1.2. The purpose of the plan is to align audit effort with those areas assessed as posing the greatest risk to the Council.

2.2. Selecting the Audits

- 2.2.1. The main consideration in audit work is the degree of risk to the Council. Factors to be taken into account when selecting specific audits for inclusion in the planned work for 2014-15 include:
- a) The materiality of the activity in terms of financial values as well as political and regulatory factors such as legislative requirements.
 - b) The reliance to be placed on Internal Audit's work by the Council's external auditors in their reliance on the Council's significant financial systems as part of the external audit of the Council's published financial statements.

¹ These are issued jointly by CIPFA and the Chartered Institute of Internal Auditors. They set out the professional standards for internal auditors in accordance with recognised international professional practice.

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- c) The degree of the Council's reliance on third parties for service delivery, by means of contracts and partnerships.
- d) The sensitivity of the activity in terms of the reputational consequences of failure and the potential effects of failure on the Council, its clients and the public.
- e) Stability including organisational, IT and other change and whether the activity is yet ready for audit. (For example, it may be a new activity that is not yet fully in place).
- f) Whether Internal Audit can add value to other review and assurance processes already in place.
- g) Audit history including the assurance given in the latest previous audit on the strength of controls identified at that time, plus any risk or experience of fraud, error or waste.
- h) Any other material concerns, including anything raised by the responsible director.

2.3. We have traditionally used these factors as part of an overall risk assessment for each auditable activity. In 2013-14, the decision was made to present the audit plan in a more generic format than had been done in previous years. This was then supplemented by more detailed quarterly plans setting out the specific audits to be delivered based on the risks and related priorities prevailing at the time. The process worked well and has been continued in 2014-15. Though it does not give an absolute measure of risk, it does give a basis for prioritising audit work. It also means that, given the considerable uncertainties the Council faces, the audit plan can be readily adjusted to reflect changes in risk profiles and strategic or operational priorities whilst maintaining a sufficiency of audit coverage for each of the relevant areas.

2.4. Individual audits and their associated time budgets will be agreed with the relevant service management; in most cases by means of specific terms of reference. Regular update reports on the delivery of these audits will be presented to the Audit & Risk Committee, who will also be advised of any implications for Internal Audit's ability to give sufficient assurance on the effectiveness of the Council's system of internal control and its management of risk.

2.5. It should be noted that inclusion in the audit plan does not imply that a service, system or activity is poor. It does, however, indicate activities that most need to be subject to effective controls to manage the risks identified. An effective control environment may include regular internal audit review.

2.6. Delivering the Audit Plan

2.6.1. In compiling the audit plan, Internal Audit has always sought to present an objective view of the audit needs of the City Council. Traditionally, this has accompanied an assessment of the extent to which the plan can be

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delivered within the Internal Audit resources available. There is the irony that the continuing financial stringency increases the need for high levels of assurance on the effectiveness of the Council's systems of internal control, which increases the importance of effective Internal Audit coverage.

- 2.6.2. Given the more flexible and risk-based approach to audit planning in 2014-15, this annual audit plan does not identify the audit resources anticipated to be available. Setting out estimated audit time budgets at this stage with subsequent reporting on the variances that arise from ever-changing circumstances is not considered meaningful.
- 2.6.3. Audit time budgets will continue to be included in the quarterly detailed audit plans, based on resources and priorities as they develop over the year. Delivery of the plan along with the outcomes of audit work will also continue to be subject to regular reporting, both on the individual audits as they are completed and overall during and at the end of the financial year. Combined with effective follow-up of recommendations made and high-level reporting on trends and themes emerging, this should enable the Council to strengthen further its governance and control systems.
- 2.6.4. Where Internal Audit reviews have resulted in low levels of assurance, follow-up audits will be conducted subsequently to review the implementation of audit recommendations made. The aim is to give assurance that the necessary improvements to controls have been made such that a revised, higher, level of assurance can be given. The plan makes allowance for such follow-up work and reporting on its outcomes to senior management and the Audit & Risk Committee.
- 2.6.5. Finally, despite quarterly detailed plans, occasions will arise when urgent specially commissioned audit work will be needed that will not wait until the next forthcoming quarterly audit plan. Such audits will only be undertaken if an assessment of risk demonstrates a high need for involvement compared with other planned work; they and their implications will be included in the regular progress reporting.

2.7. The Audit Plan as a contribution to the Council's system of internal control and governance

- 2.7.1. Internal Audit plays a major role in supporting and maintaining effective internal controls as a contribution to the effective corporate governance of the Council and its activities. This annual audit plan is the prime mechanism, though not the only one, for providing independent assurance to the Council that its systems of internal control are operating effectively and, where they are not, for drawing this to the Council's attention. Internal Audit's work provides assurance that the risks posed to the achievement of the Council's objectives are effectively controlled and, where they are not, identifies the extent to which remedial actions are required to put controls in place or to make existing controls more effective. It is important, however, that the true purpose of Internal Audit is recognised; that is, independent review of management control. It is not Internal Audit's purpose to replace such control and take the place of management.

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- 2.7.2. Under the *Accounts & Audit (England) Regulations 2011*² the Council is required to review its system of internal control at least annually. The results must be given in its Annual Governance Statement³, which is published alongside the published financial statements as part of the Council's accountability to all of its stakeholders.
- 2.7.3. The regulations also require the Council to '*undertake an adequate and effective internal audit*'⁴. The Council must also review its internal audit arrangements at least annually. Clearly, the degree of reliance that the Council can place on the work of Internal Audit is a key element in discharging these requirements.
- 2.7.4. Internal Audit's contribution to this process for 2014-15 is set out in this plan. The results of a formal review of the system of internal audit will be reported separately to the Audit & Risk Committee later in 2014. It will include an assessment of compliance with the *Public Sector Internal Audit Standards*⁵, the professional standards that govern the internal audit profession. The Council's external auditors expect Internal Audit to comply with the PSIAS⁶.
- 2.7.5. Internal Audit is therefore an essential component of the Council's corporate governance and assurance framework.
- 2.7.6. All of the above is subject to regular review of progress, the outcome of which is reported periodically to the Audit & Risk Committee.

3. Themes Emerging in the 2014-15 Internal Audit Plan

- 3.1. A number of themes have emerged in the preparation of the 2014-15 Internal Audit Plan. These are:
- The continuing **financial pressures** faced by the City Council. Internal Audit intends to focus its efforts where practicable on the value for money derived from the activities being audited (including provision for specific value for money audits). This will particularly be the case in audit work on the **significant financial systems** (such as the main accounting system, creditor payments and payroll). The Council's external auditors, KPMG, have indicated that they will seek to place significant reliance in 2014-15 on Internal Audit's work on significant financial systems.
 - **Information governance and data security**. A number of audits, especially in the IT field, cover the security of the Council's extensive and often highly sensitive data holdings. Internal Audit will undertake technical audits of new and developing IT systems as part of corporate

² Regulation 4(2) of the Accounts and Audit (England) Regulations 2011

³ Required under regulation 4(3)(b) of the Accounts and Audit (England) Regulations 2011

⁴ Regulation 6(1) of the Accounts and Audit (England) Regulations 2011

⁵ The *Public Sector Internal Audit Standards* were issued jointly by CIPFA and the Chartered Institute of Internal Auditors. They set out the professional standards for internal auditors in accordance with recognised international professional practice.

⁶ *Internal and external audit protocol*, KPMG, April 2013

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IT security policy. Information assurance and data quality are recognised as a specific area of relevance to the corporate assurance framework, which leads to the Annual Governance Statement.

- A continuation of Internal Audit work in **high-level corporate management functions** including corporate governance, risk management, project assurance and performance management. Internal Audit will play a major part in this in conjunction with the preparation of the Council's Annual Governance Statement.
- There is to be similar specific coverage of the Council's arrangements under its **Public Health** responsibilities.
- **Contract audit.** The considerable and increasing dependence on external suppliers and partners in the provision of Council services makes this an essential component of the audit process. It will cover the robustness of the arrangements in place with a view to ensuring that the Council's interests are protected at every stage in the contract procurement and monitoring processes.
- **Schools.** Internal Audit undertakes routine audits of the financial and governance processes at schools, linking this to the Department for Education's Schools Financial Value Standard (SFVS). There may also be thematic audits of school-related processes such as school governance. Additional traded audit service options are available to schools, including advice and consultancy on financial arrangements. Internal Audit is also ready to support the provision of an effective audit process in those schools converting to academies; this is at the discretion of the schools themselves, however.
- Continued coverage of other **outlying establishments** such as social care facilities and leisure centres. There is a need to promote best practice across service establishments. Internal Audit has a continuing role in giving advice on this and assurance on its effectiveness.
- **Environmental Audits.** In 2013, the Council decided to continue its accreditation under the Eco-Management and Audit Scheme (EMAS). The internal audit process is crucial to this but there is to be a change in emphasis. In 2014-15, Internal Audit will give greater prominence to risk, partly based on related requirements such as carbon reduction targets. In the interests of efficiency, the site-based EMAS compliance audits of, for example, depots are to be combined with the corporate Health & Safety team's existing inspection programme.
- There is provision for other **compliance audits**, aimed at providing independent assurance on areas of regulatory or similar requirements.
- **Grant claims.** Internal Audit is regularly called upon to certify grant claims. Though external grant funding arrangements continue to change, it is important that Internal Audit is made aware of the need for certification audits of claims at as early a stage as possible. Associated with this is an agreement in principle with the external auditor that

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Internal Audit will undertake the audit testing work for a number of grant claims or returns.

- Provision is made for **value-for-money (VFM) and other responsive audits**. These seek either to identify the opportunity for savings and other efficiencies or to investigate matters of particular concern or emerging risk. In either case, the scope and objectives of each audit will be specifically agreed with senior management.
 - Finally, within the audit plan, there will be specific **follow-up audits** especially of areas where Internal Audit reviews have previously given low levels of assurance. The aim is to re-test such activities in the anticipation that service management have properly addressed previous recommendations made and have thereby strengthened controls. In this event, Internal Audit should be able to issue revised, higher, levels of assurance.
- 3.2. Though not part of Internal Audit or the audit plan, counter-fraud activity is well established and will continue, particularly as fraud represents probably the worst possible value for money for the Council. The Counter-Fraud teams operate separately from Internal Audit but where feasible their work will be coordinated with any related Internal Audit work plus management's own responsibility for investigations.

4. The External Auditor

- 4.1. The external auditor's responsibilities under the Audit Commission's *Code of Audit Practice* include review of the Council's:
- financial statements (including the Annual Governance Statement), providing an opinion on the Council's accounts; and
 - use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources (the value for money conclusion).

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

- 4.2. It is recognised that KPMG, as the Council's external auditor, may wish to carry out work that could overlap with planned Internal Audit work. There is a close working relationship between Internal Audit and the external auditor, with each making its work plans available to the other. In this way the scope for duplication of effort should be kept to a minimum.
- 4.3. Internal Audit procedures and test programmes are usually more detailed than those required by the external auditor to meet external audit objectives. Where appropriate, however, Internal Audit will conduct its work in such a way as to enable the external auditor to rely on work done by Internal Audit wherever possible. Particular areas where this will apply are testing work on the main financial systems such as payroll and creditor payments, and the

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certification of grant claims; due allowance for these is made in the audit plan. With the above in mind, both audit services will operate within the terms of an agreed internal and external audit joint working protocol.

5. Conclusions

- 5.1. The Internal Audit Operational Plan for 2014-15 aims to give the Council optimum audit coverage within the resources currently available. Though it is compiled and presented as a plan of work, it must be recognised that the plan can only be a statement of intent. Whilst every effort will be made to deliver the plan, Internal Audit recognises that it needs to be flexible. Actual audit work therefore may be modified during the year according to the circumstances prevailing at the time.
- 5.2. The Head of Internal Audit & Risk Management, along with the whole Internal Audit team, are fully committed to delivering a high quality and responsive Internal Audit service to the City Council. With this in mind, they will be seeking throughout the year to continue to develop the service in accordance with recognised best practice.

6. Approval

- 6.1. The Internal Audit Plan for 2014-15 was presented for approval by the Audit & Risk Committee at its meeting on 15 April 2014.

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Lead Department	Audit Area	Reason for inclusion	Scope
Finance	<p>Significant Financial Systems, potentially including any or all of:</p> <ul style="list-style-type: none"> • Financial reporting including areas such as reconciliation procedures, suspense accounts, journals, bank reconciliation • Debtors • Creditors • Cash • Payroll • Capital Additions and Disposals • Council tax • NNDR (business rates) • Housing rents • Any others as may be identified by KPMG. <p>It may be that some of these will be covered on a cyclical basis by agreement with KPMG.</p> <p>Other financial systems as agreed.</p>	<p>Under an agreed joint working protocol, KPMG as the Council's external auditors will place reliance on Internal Audit's annual testing of key controls within these systems. It is partly through this reliance that the external audit fee will be reduced. If such reliance cannot be placed on Internal Audit's work, KPMG may undertake supplementary testing themselves and charge the Council an additional fee accordingly.</p> <p>Internal Audit's work on financial systems will not necessarily be confined to those considered 'significant' by the external auditor in terms of the Council's financial statements.</p>	<p>Specified key controls for each system, in the context of that system's contribution to the Council's published financial statements. Internal Audit may agree with the Director of Finance other areas of work according to the risks or priorities at the time.</p> <p>Internal Audit work on any or all of these systems may go beyond the required scope of the external audit work. The initial assumption is that the work will comprise walk-through testing to confirm the continued operation of processes and controls as understood or identify any material changes, supplemented by sample testing of transactions against the specified controls.</p> <p>It is intended to do most of this work in the fourth quarter of the year so as to include as much of the financial year as possible. This will be supplemented each year by limited testing in the first quarter of transactions made towards the end of the previous year, to ensure full coverage of each year.</p>

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Lead Department	Audit Area	Reason for inclusion	Scope
Information & Customer Access	IT and information security audits	<p>All of the Council's business processes rely to an increasing extent on information technology. In many areas there are significant information risks, chiefly associated with sensitive personal or commercial data. The quality of data held is also fundamental.</p> <p>In addition, there is an increasing need to share information with partner organisations; for example, in health and social care. It is essential that such data sharing is conducted properly.</p> <p>The aim is to protect the interests of all concerned including the Council and those about whom information is held.</p>	<p>A programme of audit reviews of the integrity, availability and security of IT infrastructure, hardware, software and data. Where feasible, these will include technical IT-based testing and scanning of security arrangements in operation. As well as data security, audit work will cover the quality of the data held.</p> <p>There may also be data security spot-checks at outlying Council establishments.</p> <p>Specific audit coverage will include:</p> <ul style="list-style-type: none"> • IT General Controls: annual coverage in support of significant financial systems audits above • Penetration testing - specialist IT audit testing of security in new and enhanced IT systems in accordance with corporate policy.
Corporate	Corporate Governance	Regular audit coverage of corporate governance arrangements with particular reference to the statutory requirement for the Annual Governance Statement.	<p>Audit work will seek to give assurance on aspects of the Council's governance arrangements and the requirements of the Council's Local Code of Corporate Governance. It will include governance generally plus supporting processes including the management of risk, project assurance and performance management.</p> <p>Potential coverage also includes:</p> <ul style="list-style-type: none"> • Governance arrangements in partnerships (see also contracts and procurement audit below) • Adherence to the Council's Constitution in the decision-making process • Performance management, partly in the context of the City Mayor's Delivery Plan.
Adult Social Care, Health & Housing	Public Health	It is essential that the associated governance and accountability arrangements are robust so as to protect the interests of all parties in this important area of public policy.	<p>Governance, budgetary control and contract procedures plus IT and data governance, subject to prevailing risks and priorities.</p> <p>A total of 30 audit days in 2014-15 has been agreed with the Director of Public Health.</p>

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Lead Department	Audit Area	Reason for inclusion	Scope
Finance	Contracts and procurement (including commissioning and partnerships)	<p>Contracting and procurement are a major risk area, given the high turnover and diversity of contractual expenditure for both capital and revenue purposes and the reliance on third-party suppliers and partners. There is a clear need for probity and integrity in all such arrangements.</p> <p>Work continues to improve the Council's contract procurement and management processes, including further revision of the Contract Procedure Rules as well as restructuring of the corporate professional support for the function. Finally, value for money in contracts is of ever-greater importance.</p>	<p>There will be a programme of audits covering the Council's corporate procurement and contracts processes, with specific coverage of contract arrangements within certain service areas. In addition, audit coverage is intended to include the arrangements in place for monitoring of partnerships, including adherence to the Council's Partnership Guidelines. Audits will seek to identify whether due process has been followed and decisions properly made.</p> <p>There will be specific follow-up review of 2013-14 audit work to seek assurance that recommendations previously made have been acted upon.</p>
Children	Schools - General and Finance including <i>Keeping Your Balance</i> financial audits	<p>Schools are a high-profile activity managing large budgets in a highly devolved framework. It is recognised that schools need to have sound financial and governance arrangements. The aim is to give independent assurance to the schools and the Council that the processes for financial management are operating effectively.</p>	<p>Audit visits to primary, secondary and special schools to review their financial processes and aspects of their governance arrangements.</p> <p>In planning and undertaking this work, Internal Audit will have regard to the outcomes of the schools' self-assessments against the Department for Education (DfE) Schools Financial Value Standard (SFVS).</p> <p>Thematic audits are also intended of specific topics of such as school governance and compliance with schemes of delegation</p> <p>In addition, there will be some audit work on:</p> <ul style="list-style-type: none"> • 16-19 education • high-needs funding and special educational needs (SEN) including potential review of arrangements for compliance with legislative requirements.

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Lead Department	Audit Area	Reason for inclusion	Scope
Finance	Cash audits and Establishments	Routine audits of City Council establishments located away from the central administrative buildings, designed to provide assurance to Directors that cash and security arrangements are operating effectively. Though most are individually of relatively low value, cumulatively significant sums of money are held in imprest accounts, cash floats and change floats, often in remotely managed establishments, giving rise to a number of risks. The audits are intended to provide assurance that cash-handling and associated procedures and Finance Procedure Rules are being adhered to.	<p>The systems in place to control and manage cash and to process other financial transactions securely.</p> <p>Other related areas of risk such as the security of the premises and assets, with particular reference to premises that are relocating or closing, such as day centres and elderly persons' homes.</p> <p>The Audit & Risk Committee have expressed concern over cash-handling arrangements.</p>
City Development & Neighbourhoods	Environmental Audits	<p>The Eco-Management & Audit Scheme (EMAS) with its associated audit process is a corporate objective, demonstrating the Council's commitment to sound environmental management practices.</p> <p>The broad approach for environmental audit was considered by Carbon Board in January and March 2014. It was agreed that the site-based audit work (known as Level 3 audits) will be combined with the corporate Health & Safety team's regular site inspections. Internal Audit work will then concentrate on the overall EMAS system, the public statement and thematic audits covering agreed areas of environmental risk.</p>	<p>Detailed involvement in the management assurance process supporting the Council's aim of maintaining EMAS accreditation. This includes a programme of audits at various levels, as follows:</p> <ul style="list-style-type: none"> • Level 1 audit: Annual audit of the EMAS System • Level 2 audits: Thematic Council-wide audits based on risk, such as sustainable procurement, derived partly from the Carbon Action Plan. • Level 4 audit: Review of the draft Environmental Statement, focusing on data quality. <p>A total of 80 Internal Audit days has been committed to each year of the three-year EMAS audit programme commencing in 2014-15.</p>
City Development & Neighbourhoods (and possibly elsewhere)	Other operational risks - Compliance audit	Other areas of risk where independent assurance is sought on the Council's compliance with specific legal or regulatory requirements.	<p>To be determined but potential specific audits so far identified include:</p> <ul style="list-style-type: none"> • Vehicle Operator's Licence - compliance with requirements • Property-related statutory compliance such as but not limited to water hygiene, asbestos, electrical safety – monitoring arrangements. <p>These are subject to confirmation.</p>

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Lead Department	Audit Area	Reason for inclusion	Scope
Various	Grant certification testing	<p>Various City Council services and their related expenditure are supported by grant funding. There is often a requirement for independent audit certification that funds have been used in accordance with stipulated conditions.</p> <p>In some cases, the external auditor provides the certificate but relies on Internal Audit testing for grant claims and other returns. This enables the external auditors to reduce their workload and potentially avoid additional fees to the City Council.</p> <p>In other cases, there is a direct requirement for certification of claims and returns by Internal Audit.</p>	The various grants and returns specified by the funding agencies or the external auditor, tested according to the grant certification instructions or other requirements.
Various	Value For Money and Responsive Audits	<p>The City Council is facing reduced budgets, and therefore there is a need to make savings wherever possible.</p> <p>Increasing efficiency and reducing wastage are more important than ever, and Internal Audit has the knowledge and skills to review specific areas with a view to reducing costs.</p> <p>In addition, Internal Audit may be called upon, sometimes at short notice, to undertake responsive non-fraud investigative work. By definition, specific areas cannot be identified at this stage.</p>	<p>Areas for review will be determined during the year and specific terms of reference agreed for each.</p> <p>These audits may include sample spot-checks of expenditure and other transactions.</p>
Various	Follow-up Audits	<p>There is a need to ensure that service management verifiably and sustainably implement agreed recommendations so that the organisation learns from its experience and addresses identified weaknesses in control. Both the Audit & Risk Committee and senior management have asked that Internal Audit revisit areas audited in the previous financial year. In particular, Internal Audit has been asked for updated assurance opinions on those audits for which 'little or no assurance' was given in 2013-14.</p>	Some of these are included in other rows above so are not repeated here.