



Leicester  
City Council

## FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Finance Management Team	20 March 2014
Strategic Management Board	1 April 2014
Operational Board	9 April 2014
Audit & Risk Committee	15 April 2014

---

### Internal Audit – 1<sup>st</sup> Quarter Operational Plan 2014-15

---

#### 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 2014-15 has been prepared on the basis of broad areas of audit coverage rather than detailed lists of specific audits. It was considered by the Strategic Management and Operational Boards and was presented for approval by the Audit & Risk Committee on 15 April 2014.

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 plan for the first quarter of the financial year 2014-15. It has been agreed by the Strategic Management and Operational Boards and the Finance Management Team.

##### 2. Recommendations

2.1. The Audit & Risk Committee is asked to note the Internal Audit operational plan for the first quarter of 2014-15, 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 first quarter of 2014-15 is attached at Appendix A. The following are worthy of note:

- a) **Significant financial systems.** Annual coverage of the Council's main financial systems continues. These audits take as their starting point the key controls identified in connection with the joint working protocol agreed with the Council's external auditors, KPMG. The intention is to conduct the audits in such a way that, should they wish to, KPMG can place reliance on this work when they undertake their opinion audit on the financial statements for 2013-14. The intention in the first quarter is to complete audit work on transactions made in the latter part of 2013-14 so as to provide complete coverage of the entire financial year.
- b) **Contract audit.** Partnerships are an area of risk that will be covered by contract audit, with particular reference to compliance with the guidelines in place to protect the Council's interests.
- c) **Cash and establishment audits** will concentrate on important new Council services including the new Customer Services Centre and the Visit Leicester Centre.
- d) **IT audit** will support the significant financial systems work outlined above by means of the regular review of the essential general controls in the related IT applications. Again, this is with a view to reliance being placed upon our work by KPMG. The other IT audits identified seek to assess the controls in place to manage areas of specific risk identified in consultation with the Head of Information Assurance. They concern the transition from old IT systems to new ones, the security of data and the Council's websites.

All of this is dependent on the capacity of ICT to support the audit work given the move of the ICT data centre from New Walk Centre to Beaumont Leys. In addition, the scope of the websites audit may vary once it is under way, depending on the assessment of risks. This may have implications on Internal Audit's capacity to undertake the other audits.

- e) **Schools** audit work will concentrate again on the Schools Financial Value Standard, partly in support of the annual return to be certified by the Director of Finance. Internal Audit and the Learning Services Division are to discuss further the approach to schools audit so as to combine the audit needs of the local authority and the individual schools to best effect.

- f) Finally, an outline provision is made for **follow-up** of previous audit recommendations to provide independent confirmation that corrective actions have been demonstrably made to address identified weaknesses in controls.
- 3.4. 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.
- 3.5. It should also be noted that during the first quarter, many services and their support functions will be relocating because of the need to vacate New Walk Centre. This includes Internal Audit itself. At the time of writing, the exact implications of this are unknown but they may affect the delivery of audit work. Internal Audit will agree the timing of each audit review with the service management involved.
- 3.6. In identifying the audits for the first quarter plan, due regard was had to the generic areas of audit set out in the annual audit plan and the need to ensure sufficient coverage of each by the end of the financial year.
- 3.7. 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.
- 3.8. The process of using a generic annual audit plan supplemented by quarterly detailed audit plans started in 2013-14 and has worked well. Future audit plans will therefore be prepared showing the specific audits that are planned to be carried out in the forthcoming quarter. These will be supplemented by progress reporting on the completion of the previous plans. Because the agendas for the respective meetings are already busy it is proposed that this be done by means of half-yearly update reports to senior management and the Audit & Risk 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 (England) 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

As no EMAS environmental audits are planned to start in the first quarter, 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	No	
Crime and Disorder	Yes	Whole report and particularly 3.3(d) 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 Strategic and Operational Directors; Finance Management Team (which includes all Heads of Finance) and the Head of Information Assurance.

### 8. Report Author

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

Set out below are the individual audits expected to be started in the first quarter of 2014-15.

This is subject to:

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

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
Significant Financial Systems	Corporate Resources (Financial Services)	Significant Financial Systems	40	<p>Review of key controls as identified in the <i>Internal and External Audit Joint Protocol</i>.</p> <p>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.</p> <p>The financial processes or systems covered are:</p> <ul style="list-style-type: none"> <li>• Financial reporting</li> <li>• Payroll</li> <li>• Capital additions and disposals</li> <li>• Council tax (including discounts)</li> <li>• NNDR (business rates)</li> <li>• Housing rents</li> <li>• Cash and cash equivalents.</li> </ul>	<p>This is a continuation of audit work which started in the last quarter of 2013-14, which covered the main financial systems for periods 1-9 of 2013-14. This audit will cover the remaining three months of the 2013-14 so as to ensure the whole year is covered. External audit reliance by KPMG is anticipated.</p> <p>The actual total days may vary depending on requirements and the availability of information.</p> <p>Preliminary audit work is intended on Council tax discounts and may be supplemented by further review later in the year.</p>
Budgetary Control	Corporate Resources (Financial Services)	Significant Financial Systems	25	Indicative provision at this stage; exact scope to be agreed.	There is continued scrutiny of budgets. KPMG have indicated an interest in budget monitoring at cost centre level.

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
Community Support Grant	Corporate Resources (Financial Services)	Other Financial Systems	20	Review of the controls to ensure the payments are made in line with the required procedures.	<p>The Welfare Reform Act 2012 abolished Community Care Grants and Crisis Loans (provided by the Department for Work and Pensions) from 1 April 2013 and replaced them with a new Local Welfare Provision, administered by local authorities. For Leicester this new Local Welfare Provision is called the Community Support Grant Scheme (CSGS).</p> <p>In 2013-14 £1.6m was allocated to Leicester City Council, with a similar allocation expected in 2014-15. New procedures have been established to make payments under this scheme. Assurances are required by management that controls are adequate to ensure payments are correctly made in line with the scheme and accurately accounted for.</p>
Partnerships	Corporate Resources (Financial Services)	Contract audit	25	Review of a sample of partnership arrangements including adherence to the Council's Partnership Guidelines.	Audit & Risk Committee concerns about funding and monitoring arrangements.
Customer Services Centre	Corporate Resources (Information & Customer Access)	Cash audits and establishments	15	Review of the cash handling procedures, including security and reconciliation procedures.	The new Customer Services Centre has recently opened; this is a larger operation than the previous one and new arrangements are in place for service delivery. The audit review will assess the controls in place.

**Appendix A**  
**Internal Audit 1<sup>st</sup> quarter operational plan 2014-15**

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
<i>Visit Leicester Centre</i>	City Development & Neighbourhoods (City Centre)	Cash audits and establishments	10	Review of the cash handling and related financial procedures, including sales stock and reconciliation procedures.	The <i>Visit Leicester</i> Centre transfers to direct City Council responsibility on 1 April 2014.
Libraries	City Development & Neighbourhoods (Cultural & Neighbourhood Services)	Cash audits and establishments	7	Review of the cash and income arrangements including the new self-service facilities.	New self-service machines are being installed in the libraries across the city. Internal Audit assurances are requested about the new arrangements to ensure controls are adequate. IT audit work is also planned for the libraries service; see below.
Corporate Governance – Annual Governance Statement	Corporate (City Barrister & Head of Standards)	Corporate governance	5	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 work follows the recent annual review of the Council's assurance framework. It is intended to contribute towards the preparation of the Annual Governance Statement, which will be the main output from this work and will be presented in due course to the Audit & Risk Committee.
IT General Controls	Corporate Resources (Information & Customer Access)	IT Audit	20	Access controls and user management for the IT applications supporting the significant financial systems. This audit will chiefly consist of regularity-type audit testing to confirm that controls continue to operate soundly.	Annual coverage in support of significant financial systems audits. This work may be reviewed by KPMG in connection with their external audit work.

**Appendix A**  
**Internal Audit 1<sup>st</sup> quarter operational plan 2014-15**

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
Customer Data Integration (CDI)	Corporate Resources (Information & Customer Access)	IT Audit	10	The aim of CDI is to gather information from across the organisation to present a true consistent, accurate, single view of data held about the Council's customers. The security and robustness of this major data-handling process are crucial to manage the major risks involved.	Internal Audit has been asked to undertake periodic health-check IT audits of this important but high-risk area.
Open Housing IT system - data migration	Corporate Resources (Information & Customer Access)	IT Audit	10	Assurance to management that data migrated from the old Open Housing (Capita) system to the new OH (Northgate) system is transferred accurately and completely.	
Liquid Logic (CareFirst replacement)	Corporate Resources (Information & Customer Access)	IT Audit	10	Assurance to management that data migrated from the CareFirst system to the new LiquidLogic system is transferred accurately and completely.	LiquidLogic is the new IT system replacing the CareFirst system used in social care.
Website security assessment	Corporate Resources (Information & Customer Access)	IT Audit	25	A request from the Director of Information & Customer Access to test the Council's websites for vulnerabilities and provide an assessment of the risks these may present. Once it is under way, the scope of this audit work may change depending on the risks and findings identified.	Websites are a major point of access to the Council's services, networks and information.



Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
Libraries Public PCs and Wi-Fi	City Development & Neighbourhoods (Cultural & Neighbourhood Services)	IT Audit	10	Review of public PCs and the Wi-Fi service in libraries to ensure the Council's and its customers' interests are protected.	Requested by service management in order to give independent assurance on this important IT-based public service.
Schools Financial Audits including Schools Financial Value Standard (SFVS)	Children's Services (Learning Services)	Schools	40	Reviews of SFVS self-assessment returns received from schools, including visits to a sample of schools to verify the quality and accuracy of the responses and to ensure that all actions agreed in the previous year's self-assessment have been addressed. Visits will also be made to schools that do not submit a SFVS self-assessment where required.  Potential thematic audits of aspects of school finance and governance linked to the support received by schools from the local authority.	The precise scope of schools audits is subject to further consultation with Learning Services to determine where audit effort is best directed.  The SFVS-related audits will help to inform the annual statement on SFVS submitted by the Director of Finance to the Department for Education.
Schools Audit Annual Report for 2013-14	Children's Services (Learning Services)	Schools	5	Review of 2013-14 schools audit findings, including a summary paper for publication on the Schools' Extranet.	Part of the purpose of this report is to present the trends arising from schools audit work in the past year so as to help schools address the more frequently occurring issues and thereby strengthen the financial management controls in place.

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
Growth Fund grant	City Development & Neighbourhoods (Planning, Transportation & Economic Development)	Grant certification	3	Residual grant audit for 2013-14 in line with certification guidelines.	Leicester City Council is the accountable body for this grant and has to submit the grant certification. The deadline is expected to be in mid-June.
Pooling of Housing Capital Receipts	Adult Social Care, Health & Housing (Housing)	Grant certification	10	Grant certification in line with the certification guidance provided by KPMG.	As part of the joint working arrangements with the external auditor this is Internal Audit's preliminary work, prior to final sign-off by KPMG as external auditor.
Follow-up audits	Various	Follow-up audits	15	Evidence-based follow-up of past audit recommendations to assess progress made in implementation.	Audit recommendations are agreed with service management in order to strengthen the controls in operation to protect the Council's interests. This work is intended to ensure that agreed actions are demonstrably put into effect.
TOTAL			305		