



Leicester
City Council

WARDS AFFECTED
All

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Audit & Risk Committee

31st March 2015

Internal Audit Plan 2015-16

Report of the Director of Finance

1. Purpose of Report

1.1. This report presents to the Audit & Risk Committee the Internal Audit plan for the financial year 2015-16 for approval and seeks views on priorities for Internal Audit work in the year ahead.

2. Recommendations

2.1. The Committee are asked:

- a) To consider and approve the Internal Audit plan for 2015-16 (attached) and note the context and anticipated priorities for next year's audit work
- b) To make such comments and recommendations as they see fit.

3. Summary

3.1. Each year, Internal Audit prepares an assessment of the City Council's audit needs, based on information from various sources on the Council's business objectives, the associated risks and other priorities. This is used alongside an estimate of audit staff resources available to determine the operational audit plans for the forthcoming year.

3.2. For 2015-16, however, there are significant uncertainties that preclude the preparation of anything more than an indicative audit plan. Chief among these are:

- a) The budget pressures faced by Internal Audit and the consequent forthcoming organisational and staffing review of Internal Audit. Until this is completed, anticipated in summer 2015, it is difficult to estimate the audit resources likely to be available.
- b) The continuing pursuit of external fee-earning work with other organisations. Though the receipt of external income is helpful in sustaining the audit service, it also has implications for the staff resources available to deliver the audit service to the Council.
- c) The continuing reorganisations of services subject to audit.

- 3.3. As a result, the Audit Plan for 2015-16 is an indicative generic plan only, outlining the areas to be subject to audit, supplemented by details where known of specific commitments for audit work.
- 3.4. As in previous years, the 2015-16 audit plan will operate in the context of:
- a) The budgetary pressures faced by the Council as a whole
 - b) The constantly changing profile of risk at the Council
 - c) The continuing need for assurance on the effectiveness of corporate governance and internal control arrangements.

4. Report

4.1. Audit & Risk Committee role

- 4.1.1. The terms of reference for 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.'

4.2. The Internal Audit Plan

- 4.2.1. Professional standards¹ require Internal Audit to give an annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. This requires a structured approach for Internal Audit's work, based on risk and designed to ensure a sufficient spread of audit coverage across the various areas of audit work. The annual audit plan is the means of providing that approach.
- 4.2.2. The annual audit plan is prepared in accordance with the Council's Assurance Framework (which is also on the agenda of this meeting of the Audit & Risk Committee). This links the Council's corporate objectives, the risks to those objectives and the need for assurance on the management of those risks. The aim is to ensure that the Internal Audit annual opinion can support the Council when considering its Annual Governance Statement.
- 4.2.3. The annual audit plan is also prepared in accordance with the Council's Internal Audit Charter.
- 4.2.4. The annual audit plan for 2015-16 and the basis of its preparation are given in the attached document. Rather than presenting a detailed list of specific audits, the plan is grouped into areas of audit. The intention is that, given the considerable uncertainties the Council faces, the audit plan can be readily adjusted to reflect changes in risks and priorities while maintaining sufficiency of audit coverage for each of the relevant areas.

¹ The *Public Sector Internal Audit Standards*, issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA). They set out the professional standards for internal auditors in accordance with recognised international professional practice.

- 4.2.5. Note that this plan does not include numbers of audit days to be allocated to each area, with the exception of Environmental audits under the Eco-Management & Audit Scheme (EMAS) and Public Health (by specific agreement with the Director of Public Health). Audit time budgets will be determined when the terms of reference are agreed for each audit. They will also take account of the audit resources available, including due allowance for the implications of efforts to generate fee income by offering Internal Audit services to external organisations and academies. The capacity for Internal Audit to do this without affecting the sufficiency of the audit service for the City Council is kept under review along with the options available. The Audit & Risk Committee will be kept informed of any developments in this respect.
- 4.2.6. The main areas of coverage in the Internal Audit generic plan for 2015-16 are:
- (i) Review of the effectiveness of essential controls in the Council's significant financial systems. The scope of this work is decided in conjunction with the Council's external auditor, KPMG, with a view to their placing reliance on Internal Audit's work when conducting the audit of the Council's financial accounts. This work will be supplemented by audit review of other financial systems identified on the basis of risk.
 - (ii) IT systems and security and the need for sound arrangements for information assurance and data quality.
 - (iii) Corporate governance, so as to provide the necessary assurances for the preparation of the statutory Annual Governance Statement.
 - (iv) Audit of contracts and procurement.
 - (v) Schools. The budget reductions will mean that the extent of the mandatory Internal Audit service for schools is under review. Schools will have to pay for anything above this, as happens at other local authorities.
 - (vi) Audits of compliance by the Council with regulatory requirements. Significant among these is the Council's continued accreditation for the Eco-Management and Audit Scheme (EMAS), with a continued emphasis on identified risks and the need for assurance on data quality. The detail of Internal Audit's involvement in this remains subject to confirmation. Provision is also made for audits against mandatory and other guidance governing the Council's responsibilities for Public Health.
 - (vii) Grant certification audits, subject to the requirements of the respective funding agencies.
 - (viii) Provision for responsive audits including value for money reviews.
 - (ix) Provision for specific follow-up audits to give independent assurance on the sustained implementation of audit recommendations, especially those arising from previous audits where 'little or no assurance' had been given.
- 4.2.7. It is stressed that this is a generic annual plan only, identifying the areas of audit coverage. Though some indications are given in the plan, the specific individual

audits will be determined quarterly by consultation throughout the year. These quarterly plans and progress in delivering them will be reported via regular update reports to the Committee.

4.2.8. Mention should also be made of the Corporate Investigations Team, which reports separately to the Head of Revenues & Benefits. Their work will, however, be coordinated where necessary with that of Internal Audit.

5. Financial, Legal and other Implications

5.1. 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.

Colin Sharpe, Head of Finance, x37 4081

5.2. 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.

Kamal Adatia, City Barrister & Head of Standards, x37 1401

5.3. Climate Change Implications

Other than its references to the Eco-Management and Audit Scheme (EMAS), 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.

Louise Buckley, Graduate Project Officer, Climate Change, x37 2293

5.4. Other Implications

Other Implications	Yes/No	Paragraph/References within the Report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	Yes	4.2.6(vi): EMAS
Crime and Disorder	Yes	Whole report, plus paragraphs 4.2.6(ii) and 4.2.8. 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.

Other Implications	Yes/No	Paragraph/References within the Report
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 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. All Directors, Heads of Finance and the Head of Information Assurance have been consulted in the preparation of the audit plan. Discussions have also taken place with the external auditors, KPMG, and their comments taken into account.

8. Report Author

8.1. Steve Jones, Audit Manager, Internal Audit, Financial Services, x37 1622
steve.jones@leicester.gov.uk