



Leicester
City Council

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Audit & Risk Committee

31st March 2015

Internal Audit – 1st Quarter Operational Plan 2015-16

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 2015-16 has been prepared on the basis of broad areas of audit coverage rather than detailed lists of specific audits. It was considered by the Corporate Management Board and was approved by the Audit & Risk Committee on 24th March 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 2015-16. It has been agreed by the Corporate Management Board 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 2015-16, 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 2015-16 is attached at Appendix A. The following are worthy of note:
- a) **Significant financial systems.** The 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 2014-15. The intention in the first quarter is to complete audit work on transactions made in 2014-15 so as to provide complete coverage of the entire financial year.
 - b) **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 will assess the security arrangements in place on major new IT systems. These tests supplement other audit coverage of these systems as they have developed.
 - c) **Schools** audit work will concentrate on the Schools Financial Value Standard, SFVS, with review of returns submitted by schools and visits to a sample of schools in the summer term to review the accuracy of returns submitted. This is in furtherance of the annual assurance statement submitted by the Director of Finance on the Council's behalf to the Department for Education.
 - d) **Grant certification audits**, to provide audit certificates in line with the requirements of the relevant funding agencies. The **Troubled Families Programme** is a particular requirement, starting in the first quarter and expected to continue each quarter throughout the year.
 - e) Similarly, there is a further tranche of **Regional Growth Fund** grant payment verifications on behalf of the LLEP. This is a continuation of work started in 2014-15.
 - f) Finally, continuing 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. 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.
- 3.6. 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.
- 3.7. 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.

Colin Sharpe, Head of Finance, x37 4081

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.

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

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.

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

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(b) 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. 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 (0116 454 1622). Steve.jones@leicester.gov.uk

Set out below are the individual audits expected to be started in the first quarter of 2015-16.

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	75 (total)	<p>Annual review of key financial controls as identified in the <i>Internal and External Audit Joint Protocol</i> agreed with KPMG, the external auditor.</p> <p>This will include the main ledger system and interfaces with significant financial feeder systems.</p> <p>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.</p>	<p>This is a continuation of work started in the final quarter of 2014-15, so as to ensure coverage of the whole of the 2014-15 financial year. It will be done in anticipation that KPMG may in due course seek to place reliance on it in their external audit of the Council's financial statements.</p> <p>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. The total includes time allocated for the final quarter of 2014-15.</p>

Appendix A
Internal Audit 1st quarter operational plan 2015-16

Audit	Lead Department and Division	Audit area	Planned days	Scope	Notes
IT General Controls	Corporate Resources (Information Services)	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.
Concerto (Property and Asset Management System) - interfaces - access controls	City Development & Neighbourhoods (Property)	IT Audit	10 10	Concerto is the replacement system for PAMIS (the property and asset management system). Assurance to management that the system interfaces are operating soundly. Review of the logical access controls for Concerto.	These audits follow previous audit work on data migration from PAMIS to Concerto.
Liquid Logic (CareFirst replacement) - security	Corporate Resources (Information Services)	IT Audit	10	IT security review of the new IT system replacing the CareFirst system used in Social Care.	This audit supplements a previously planned data migration audit that was deferred at the request of the client.
Schools Audit Annual Report for 2014-15	Children's Services (Learning Services)	Schools	5	Review of 2014-15 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 Children's Services and schools address the more frequently occurring issues and thereby strengthen the financial management controls in place.

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Schools Financial Value Standard (SFVS) spot checks	Children's Services (Learning Services)	Schools	10	Visits to a sample of schools to verify the quality and accuracy of the responses in their SFVS self-assessments, and to ensure that all actions agreed in the previous year's self-assessment have been addressed. Visits may also be made to schools that do not submit an SFVS self-assessment where required.	These audits are intended to inform the annual statement on SFVS submitted by the Director of Finance to the Department for Education for the financial year ended 31 st March 2015.
Troubled Families Programme	Children's Services (Children, Young People and Families)	Grant certifications	To be identified	The DCLG financial framework for the Troubled Families Programme identifies the role of Internal Audit in verifying the results achieved through the scheme. This is to be done by reference to the Council's Troubled Family Outcomes Plan. The claims are submitted quarterly and require audit work prior to submission. However, audit work in the first quarter of 2015-16 will concentrate on the results achieved in financial year 2014-15.	
Public Health – compliance with NICE Guidance	Adult Social Care, Health & Housing (Public Health)	Public Health	To be identified	Reviews of compliance with National Institute for Health and Care Excellence (NICE) guidance. There are a number of these and the specific scope of each is to be determined with the Director of Public Health.	This is the commencement of a programme of audits to be undertaken during 2015-16.

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LLEP Regional Growth Fund payments (RGF3 and RGF4)	City Development & Neighbourhoods (LLEP)	Grant certification audit	To be identified	<p>The Leicester & Leicestershire Enterprise Partnership (LLEP), for which the City Council is the accountable body, makes payments to businesses from the Regional Growth Fund to support investment and job creation by those businesses.</p> <p>The LLEP team have requested Internal Audit support in the independent verification of grant-funded expenditure by the businesses supported.</p> <p>In addition, certification will be required for the Local Growth Fund capital grant claim for 2014-15.</p>	<p>This is a continuation of a major programme of work that started in quarter 3 in 2014-15.</p> <p>The days needed for this work depend upon the volume of work involved, which is not yet known at the time of writing as it will be undertaken on a case-by-case basis. It is significant, however, in view of the number of cases and the deadlines imposed by the DCLG.</p>
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	155 plus those to be identified		