



Leicester
City Council

WARDS AFFECTED: ALL

Audit and Risk Committee – Review Draft

10 February 2016

Draft Internal Audit Plan – 2016/17

Report of the Director of Finance

1. Purpose of Report

To provide the Committee with the opportunity to review the draft Internal Audit plan – Appendix A. Subject to any revisions necessary the plan will then be agreed at Corporate Management Team and then brought back to this Committee for final approval on the 23 March.

2. Summary

Internal Audit work to an agreed plan that is designed to give the Committee independent assurances that the significant risks faced by the Council are being managed appropriately by the risk owners – the business areas. Appendix A is the draft of the proposed generic plan for the coming year.

3. Recommendations

The Committee is recommended to:

- 3.1 Receive the report, note its contents and seek clarification on any areas of the plan as members wish.
- 3.2 Make any recommendations or comments it sees fit either to the Executive or Director of Finance.
- 3.3 If the Committee have no significant changes to recommend the plan may be approved. Otherwise any revisions will be made and the final plan will be brought back to the Committee in March for final approval.

4. Report

- 4.1 Internal Audit is a central part of the Council's corporate governance and management arrangements. It provides an objective review and assessment of the adequacy and effectiveness of the Council's framework of governance, risk management and internal control. At a time of significant budget pressure on the Council's services and the administrative functions that support them, the need for effective management and governance arrangements is paramount.
- 4.2 Internal Audit is, of course, not immune to the budget pressures affecting the Council. Internal Audit work is therefore planned to ensure that audit staff resources available 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.
- 4.3 To do so, Internal Audit prepares an annual audit plan. This is done through an assessment of risks and audit priorities by reference to the risk registers supplemented by consultation with all directors, the external auditor and the Audit & Risk Committee. The aim is to ensure a structured approach to the audit service so as to enable Internal Audit to provide an overall opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 4.4 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 any particular area may change.
 - The continuing change in the Council's organisational structures and management responsibilities.
- 4.5 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 the work plans in order to address emerging issues of greater risk.
- 4.6 In addition, Internal Audit continues to seek opportunities to provide audit services to both internal and external customers 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 such as IT audit.
- 4.7 Members may recall that, following the recent review of the Internal Audit function, there are three audit roles that are 'funded' solely by 'external' clients. Currently four Senior Auditor roles are vacant with

recruitment underway to fill two of these roles. The other two will be recruited to at the end of the financial year, should the expected income for 2015/16 be received or if additional income for 2016/17 is obtained before the start of the new financial year (talks are currently underway with two other Unitary and one Borough Council). The team is currently made up as shown in the table below.

| <u>Role</u> | <u>LCC Funded</u> | <u>Client Funded</u> |
|-------------------|-------------------|----------------------|
| Principal Auditor | 1.6 FTE | |
| Senior Auditor | 4.5 FTE | 2.5 FTE |
| IT Auditor | 0.5 FTE | 0.5 FTE |
| Auditor | 1 FTE | |

- 4.8 As 2015/16 was the first year that the Council's Internal Audit team has worked for other clients and been funded in this way, the plan for 2016/17 is divided into Leicester City Council (who remain the major client) and the external parties we are contracted to work with. The external clients include two areas that are 'quasi' LCC - the Public Health team (who have a ring fenced budget which allows for Internal Audit to be paid for) and the LLEP (the work Internal Audit are doing would be outsourced, most likely at a higher cost) and two 'true' external contracts with Audit Lincolnshire and Rotherham MBC.
- 4.9 Appendix A – 'Draft Internal Audit Plan 2016-17' identifies the areas of audit coverage and the rationale for their inclusion. In some areas, potential specific audits are identified with an indication of when in the year they might be undertaken. These are subject to confirmation when the detailed quarterly audit plans are prepared.
- 4.10 The sole purpose of the plan is to align audit resource to those areas assessed as posing the greatest risk to the Council. Factors to be taken into account when selecting specific audits for inclusion in the planned work for 2016-17 include:
- The materiality of the activity in terms of financial values as well as political and regulatory factors such as legislative requirements.
 - 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.
 - The extent of the Council's reliance on third parties for service delivery, by means of contracts and partnerships.
 - 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.
 - Stability including organisational, IT and other change and whether the activity is yet ready for audit.

- Whether Internal Audit can add value to other review and assurance processes already in place.
 - 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.
 - Any other material concerns, including those raised by the responsible director.
- 4.11 This is supplemented by detailed quarterly plans setting out the specific audits to be delivered based on the risk profile at the time. 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. The coordination between the Council's Internal Audit and Risk Management functions is of value here in 'horizon-scanning', such that emerging local and national risks are identified and can be covered in Internal Audit work where appropriate.
- 4.12 Individual audits will be agreed with service management; in most cases by means of specific terms of reference. Regular update reports on plan progress 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 management of risk.
- 4.13 It should be noted that inclusion in the audit plan does not imply that a service, system or activity is poor. It indicates 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.
- 4.14 In conclusion, the Internal Audit Operational Plan for 2016-17 aims to give the Council optimum audit coverage within the resources 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 and the resources available at the time.

5. Financial, Legal Implications

There are no direct financial or additional legal implications arising from this report. These implications will rest within (and be reported by) the business areas that have day-to-day responsibility for managing their risk.

6. Other Implications

| OTHER IMPLICATIONS | YES/NO | Paragraph References Within Supporting Information |
|-------------------------------|--------|--|
| Equal Opportunities | No | |
| Policy | No | |
| Sustainable and Environmental | No | |
| Climate Change | No | |
| Crime and Disorder | No | |
| Human Rights Act | No | |
| Elderly/People on Low Income | No | |
| Risk Management | Yes | All of the paper. |

7. Report Author/Officer to contact:

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