

Leicester
City Council

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All

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Audit & Risk Committee

27 September 2016

Internal Audit Annual Report and Opinion for the financial year 2015-16

Report of the Director of Finance

1. Purpose of Report

- 1.1. The report provides the Authority with an Annual Report and Opinion for 2015/16, drawing upon the outcomes of Internal Audit work performed over the course of that year. The report also concludes on the Effectiveness of Internal Audit.

1.2 Recommendations

The Audit & Risk Committee is recommended to:

- Receive and approve the contents of the Annual Report and Opinion
- Note that an audit opinion of 'substantial assurance' has been given in relation to the framework of governance, risk management and control for the year ended 31 March 2016
- Note that the opinions expressed together with significant matters arising from internal audit work (reported to this Committee 3 August) have been given due consideration when developing and reviewing the Authority's Annual Governance Statement for 2015/16 (also presented to this meeting for approval)
- Note the conclusions of the review of the Effectiveness of Internal Audit
- Make any recommendations it sees fit to the Director of Finance or the Executive.

2. Summary

- 2.1. In line with Public Sector Internal Audit Standards (PSIAS), which came into force originally in April 2013, an annual opinion should be generated which concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control:
- A summary of the work that supports the opinion should be submitted (given in 'Internal Audit Update Report 2015/16' presented to this Committee 3 August 2016)

- Reliance placed on other assurance providers should be recognized
- Any qualifications to that opinion, together with the reason for qualification must be provided
- There should be disclosure of any impairments or restriction to the scope of the opinion
- There should be a comparison of actual audit work undertaken with planned work (given in 'Internal Audit Update Report 2015/16' presented to this Committee 3 August 2016)
- The performance of Internal Audit against its performance measures and targets should be summarised (given in 'Internal Audit Update Report 2015/16' presented to this Committee 3 August 2016)
- Any other issues considered relevant to the Annual Governance Statement should be recorded

2.2 This report now also contains conclusions on the Review of the Effectiveness of Internal Audit, which includes:

- The degree of conformance with the PSIAS and the results of any quality assurance and improvement programme
- The outcomes of the performance indicators
- The degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit

2.3 The Annual Report and Opinion 2015/16 and the Review of Effectiveness of Internal Audit are shown in the report at Appendix A.

2.4 On the basis of the Internal Audit work performed during 2015/16, the Head of Internal Audit and Risk Management is able to give an audit opinion of **substantial** on the framework of governance, risk management and control at Leicester City Council.

2.5 The outcomes of the Effectiveness Review confirm that Internal Audit:

- Is compliant with the Public Sector Internal Audit Standards (although no significant areas of non-conformance; some areas for improvement have been identified)
- Is continually monitoring performance and looking for ways to improve;
- Is compliant with CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations.

These findings, therefore, indicate that reliance can be placed on the opinions expressed by the Head of Internal Audit and Risk management, which have then been used to inform the Authority's Annual Governance Statement.

3. Report

3.1 Please refer to Appendix A – Internal Audit Annual Report and Opinion.

4. Financial, Legal and Other Implications

4.1. Financial Implications

As defined by CIPFA in the Public Sector Internal Audit Standards (PSIAS), Internal Audit should be an independent, objective assurance and consulting activity designed to improve and add value to the Council's operations. It should help the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The self-assessment against PSIAS has concluded that there are no significant areas of non-conformance; however, some areas for improvement have been identified.

Colin Sharpe, Head of Finance, ext. 37 4081

4.2. Legal Implications

Internal Audit aids the fulfilment by the Council of its statutory responsibilities under the Accounts and Audit (England) Regulations 2011 (which were applicable throughout the financial year 2015-16) for independently evaluating the Council's system of internal control. It is an important part of the way the duties of the Director of Finance are met as the responsible financial officer under s151 of the Local Government Act 1972.

Kamal Adatia, City Barrister and Head of Standards – 37 1401

5. Other Implications

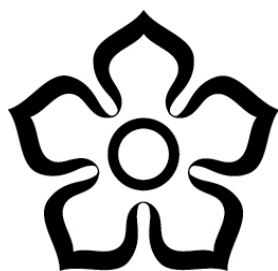
Other Implications	Yes/No	Paragraph/reference within supporting information
Equal Opportunities	No	-
Policy	No	-
Sustainable and Environmental	Yes	Various references to audit under the Eco-Management and Audit Scheme (EMAS) including paragraph 3.3.1 of Appendix A.
Climate Change	No	-
Crime and Disorder	No	-
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 and its outcomes, a main purpose of which is to give assurance to Directors and this Committee that risks are being properly identified and managed appropriately by the business.

6. Consultations

The Corporate and Finance Management Teams have been consulted on this report. Information relating to Internal Audit reports referred to has been shared with members of the Audit & Risk Committee and relevant Directors.

7. Report Author

Tony Edeson, Head of Internal Audit and Risk Management - 37 1621.



Leicester
City Council

Internal Audit
Leicester City Council

**Internal Audit
Annual Report and
Opinion 2015-16**

August 2016

Table of Contents

	Page no.
1. Introduction	1
2. Annual Opinion of the Head of Internal Audit	2
3. Audit Work Undertaken during the Year	3
4. Third Party Assurances	4
5. Annual Review of the Effectiveness of Internal Audit	4
6. Annual Review of the Effectiveness of Audit and Risk Committee	6
Appendix 1 – Assurance Levels	7
Appendix 2 – Audit Delivery 2015/16	8

Appendix A

Internal Audit Annual Report 2014-15

1 Introduction

- 1.1 The duties of the Audit & Risk Committee as set out in its terms of reference include:

On behalf of the Council, to approve the Head of Internal Audit's annual report and opinion, considering the level of assurance given over the Council's corporate governance arrangements and decide on appropriate actions.

and

To consider, challenge and approve (but not direct) Internal Audit's strategy and plan and monitor performance on an annual basis.

- 1.2 The Authority is required by the Accounts and Audit Regulations 2011 to maintain an adequate and effective system of internal audit of its accounting records and internal control systems in accordance with proper internal audit practices. (The Regulations were recently updated, which took effect from 1 April 2015, and apply to this year-end opinion). Those proper practices are set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013.

- 1.3 Those standards require the Chief Audit Executive (known in this context as the Head of Internal Audit and Risk Management) to provide a written report to those charged with governance (known in this context as the Audit and Risk Committee) to support the Annual Governance Statement (AGS). This report must set out:-

- The opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control during 2015/16, together with reasons if the opinion is not favourable;
- A summary of the internal audit work carried out from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed action as at financial year end and any reliance placed upon third party assurances;
- Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
- The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the PSIAS and the results of any quality assurance and improvement programme, the outcomes of the performance indicators and the degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit.

Appendix A

Internal Audit Annual Report 2014-15

- 1.4** When considering this report, the statements made therein should be viewed as key items which need to be used to inform the Authority's Annual AGS, but there are also a number of other important sources to which the Audit and Risk Committee (and statutory officers of the Council) should be looking to gain assurance. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully throughout the rest of this report.

2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

2.1 Roles and responsibilities

- The Authority is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- The AGS is an annual statement that records and publishes the Authority's governance arrangements.
- An annual opinion is required on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

This is achieved through the delivery of the risk based Internal Audit Plan discussed and approved at Corporate Management Team (CMT) and then approved by the Audit and Risk Committee (ARC) at its meeting on the 10 February 2016. Any justifiable adjustments are requested during the year and are agreed with senior management and are the approved by ARC in the quarterly plans brought to Committee throughout the year. This opinion does not imply that internal audit has reviewed all risks and assurances, but it is one component to be taken into account during the preparation of the AGS.

The Audit and Risk Committee should consider this opinion, together with any assurances from management, its own knowledge of the Authority and any assurances received throughout the year from other review bodies such as the external auditor.

Appendix A

Internal Audit Annual Report 2014-15

2.2 The overall opinion itself is that the Authority's framework of governance, risk management and controls is **substantial** – for a reminder of the levels of assurance and their definitions please see **Appendix 1** below. It is noted that the assurance levels given in the 35 reports assessed in the year 2015/16 break down as below:

- Full – 4
- Substantial 21
- Partial – 6
- Little or No – 4

In providing the opinion the Authority's risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management's progress in addressing any control weaknesses identified therefrom have been taken into account. The opinion has been discussed with the Chief Operating Officer and the Director of Finance prior to publication.

3. AUDIT WORK UNDERTAKEN DURING THE YEAR

3.1 **Appendix 2** reminds the Committee of the internal audit work delivered during the year and the levels of assurance used. To minimize this report and balance the number of papers at each meeting, the full report 'Internal Audit Update Report 2015/16' presented to this Committee 3 August 2016.

3.2 Internal audit work is divided into four broad categories:

- Annual opinion audits;
- Fundamental financial systems that underpin the Authority's financial processing and reporting;
- Other systems identified as worthy of a review by the risk assessment processes within the authority;
- Significant computer systems which provide the capability to administer and control the Authority's main activities.

3.3 The internal audit plan allows an amount of time for follow up work to be carried out to ensure that significant recommendations are implemented properly. In addition, this Committee receives regular reports from the Head of Internal Audit and Risk Management in relation to implementation of Internal Audit recommendations and thus keeps a watching brief on progress throughout the financial year.

3.4 Internal Audit work has not identified any weaknesses that are considered significant enough for disclosure within the Annual Governance Statement.

Appendix A

Internal Audit Annual Report 2014-15

4. THIRD PARTY ASSURANCES

- 4.1** In arriving at the overall opinion reliance has not been placed on any third party assurances.

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Degree of compliance with Public Sector Internal Audit Standards (PSIAS)

- 5.1.1** A checklist for conformance with the PSIAS and the Local Government Application Note has been completed for 2015/16. This covers the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.
- 5.1.2** The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular; Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme (which includes both internal and external assessment).
- 5.1.3** The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.
- 5.1.4** On conclusion of completion of the checklist full conformance has been ascertained in relation to the Definition of Internal Auditing, the Code of Ethics and the Performance Standards.
- 5.1.5** In relation to the Attribute Standards it is recognised that in order to achieve full conformance an external assessment is required. This must be done within 5 years of the PSIAS coming into force, i.e. 31 March 2018. As part of the proposals for the provision of Internal Audit Services for the Authority from 1 April 2017 it has been agreed that this will be undertaken in late 2017, with the results being shared with the Committee at that time.
- 5.1.6** In relation to the Quality Assurance and Improvement Programme, internal assessments are undertaken on a regular basis and performance is regularly assessed and reported upon.
- 5.1.7** The detailed checklist has been shared and discussed with the Chief Operating Officer and Director of Finance for independent scrutiny and verification.

Appendix A

Internal Audit Annual Report 2014-15

5.2 Performance Indicator outcomes

5.2.1 The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Audit and Risk Committee. Actual performance against these targets is outlined below:

5.2.2 Audit briefs should be issued 10 days in advance of an audit commencing, and on conclusion of all audits a feedback survey is issued to the key client. In all 35 areas of work this year the brief was issued in time, but (as has been reported in the past) the return of feedback forms can best be described as 'patchy'. However, when forms are returned they are generally positive – showing a satisfaction level of over 90% in each of the last three years. Having said that, it is likely that material dissatisfaction with the service would be made known in other ways and this has not been the case in the present (or past) year(s).

5.2.4 Our key measurement is plan delivery. Each auditor is allocated a set number of audits and completion of these is measured. The totality of these measures results in the delivery of the overall plan, and as **Appendix 2** shows, this was met. Going forwards, and this will depend very much on the outcome of the review of the service about to commence, the performance of the internal audit team will be measured using a balanced scorecard approach, from 1 April 2017. This brings with it a much more practical approach to performance management and one which will ensure a high quality service is provided by the team.

5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA

5.3.1 This Statement sets out the 5 principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The Principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the Authority, particularly with the Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- To be professionally qualified and suitably experienced.

5.3.2 Completion of the checklist confirms full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the 5 principles set out within.

5.3.3 The detailed checklist has been forwarded to the Chief Operating Officer and the Director of Finance for independent scrutiny and verification.

Appendix A

Internal Audit Annual Report 2014-15

- 6. ANNUAL REVIEW OF THE EFFECTIVENESS OF AUDIT AND RISK COMMITTEE**
- 6.1** In its publication *Audit Committees – Practical Guidance for Local Authorities*, CIPFA provided a self-assessment checklist to assist Councils in reviewing the effectiveness of their Audit Committees.
- 6.2** Using this checklist, it is considered that the Audit and Risk Committee meets all the requirements for an effective Audit Committee.
- 6.3** In summary:
- The Committee meets regularly and its chairmanship and membership are sufficiently independent of other functions in the Council. Meetings are conducted constructively and are free and open and are not subject to political influences;
 - The Committee's terms of reference, which were formally revised and approved during the year, provide a sufficient spread of responsibilities covering internal and external audit, risk management and governance;
 - The Committee plays a sufficient role in the management of Internal Audit, including approval of the audit plan, review of Internal Audit's performance and the outcomes of audit work and management's response to that; and
 - The Committee receives reports from KPMG as the Council's external auditor and maintains an overview of the external audit process including the fees charged.
- 6.4** However, it is acknowledged that Committee members need suitable training. Arrangements have been made to provide training on a relevant topic at the beginning of every meeting of the Committee. The Committee is subject, of course, to the risk of turnover of membership each municipal year, which is an inevitable consequence of the political environment in a local authority. When this happens, the Head of Internal Audit and Risk Management provides 121 training for all new members.

Appendix A – Internal Audit Annual Report 2014-15

Appendix 1 – Assurance Levels

Full assurance	Controls operating soundly
Substantial assurance	Controls generally sound but some improvement necessary
Partial assurance	Controls adequate in some areas but material weaknesses also identified
Little or no assurance	Controls inadequate
Not assessed	<p>It was not appropriate to give an assurance level. The main areas are:</p> <ul style="list-style-type: none">• Grant certifications, which are confirmations of the correctness and eligibility of stated values rather than audits of systems and processes• Follow-up audits of previous recommendations. In such cases, a conclusion is drawn on the degree of implementation but not on the entirety of the activity or system under review. To give an overall level of assurance may therefore be misleading.

Appendix A – Internal Audit Annual Report 2014-15

Appendix 2 – Audits Delivered 2015/16

Plan Sta	Ref	Title	Milestone as at end March 2016	Assurance Lev
Planned	A2015-002	Concerto Access Control	Final report issued	Little or no assurance
Planned	A2013-084	Taxi contract	Final report issued	Partial assurance
Planned	A2014-002	Community Support Grant	Final report issued	Partial assurance
Planned	A2014-039	Sports Centres Stock Control	Final report issued	Partial assurance
Planned	A2014-058	Housing Rents 2014-15	Final report issued	Partial assurance
Planned	A2015-016	LCC Social Media	Final report issued	Partial assurance
Planned	A2013-106	EMAS Level 1: Overview of EMAS System	Final report issued	Substantial assurance
Planned	A2014-001	Budgetary Control	Final report issued	Substantial assurance
Planned	A2014-046	Adult Skills & Learning – Community Education	Final report issued	Substantial assurance
Planned	A2014-054	Financial Reporting 2014-15	Final report issued	Substantial assurance
Planned	A2014-055	Payroll 2014-15	Final report issued	Substantial assurance
Planned	A2014-057	Council Tax & NNDR 2014-15	Final report issued	Substantial assurance
Planned	A2014-059	Cash & Cash Equivalents 2014-15	Final report issued	Substantial assurance
Planned	A2014-060	IT General Controls 2014-15	Final report issued	Substantial assurance
Planned	S2014-038	Caldecote Community Primary School	Final report issued	Substantial assurance
Planned	S2014-040	Babington Community College	Final report issued	Substantial assurance
Planned	S2014-041	Coleman Primary School	Final report issued	Substantial assurance
Planned	S2015-001	Catherine Junior School	Final report issued	Substantial assurance
Planned	S2015-002	Herrick Primary School	Final report issued	Substantial assurance
Planned	S2015-004	Spinney Hill Primary School	Final report issued	Substantial assurance
Planned	S2015-005	West Gate School	Final report issued	Substantial assurance
Planned	S2015-006	Wolsey House Primary School	Final report issued	Substantial assurance
Planned	A2014-056	Capital additions & disposals 2014-15	Final report issued	Full assurance
Planned	A2015-006	Troubled Families Programme	Final report issued	Full assurance

Appendix A – Internal Audit Annual Report 2014-15

Appendix 2 – Audits Delivered 2015/16

Plan State	Ref	Title	Milestone as at end March 2016	Assurance Level
Planned	S2015-003	Mayflower Primary School	Final report issued	Full assurance
Planned	A2014-040	Follow-Up audit: Public Health Transition (Information Governance)	Final report issued	Not assessed
Planned	A2015-005	School audit annual report 2014-15	Final report issued	Not assessed
Planned	A2015-014	BDUK Broadband Connection Voucher Scheme	Final report issued	Not assessed
Planned	A2015-018	Local Transport Plan LTP 2015-16	Final report issued	Not assessed
Planned	A2015-019	Local Sustainable Transport Fund LSTF 31/2362 2015-16	Final report issued	Not assessed
Planned	A2015-020	Pinch Point LPPF 31/2274 2015-16	Final report issued	Not assessed
Planned	A2015-027	Annual Governance Statement 2014-15	Final report issued	Not assessed
Planned	A2015-030	Troubled Families Programme	Final report issued	Not assessed
Planned	S2014-055	Buswells Lodge Primary School	Final report issued	Not assessed
Planned	S2015-010	Netherhall School - follow-up audit	Final report issued	Not assessed
Planned	S2015-011	Woodstock Primary School - follow-up audit	Final report issued	Not assessed
Planned	S2015-012	Scraptoft Valley Primary School - follow-up audit	Final report issued	Not assessed
Planned	S2015-013	Montrose School - follow-up audit	Final report issued	Not assessed
Planned	S2015-014	Linden Primary School - follow-up audit	Final report issued	Not assessed
Planned	S2015-015	Inglehurst Junior School - follow-up audit	Final report issued	Not assessed
Added to the plan	A2014-024	CareWorks	Final report issued	Little or no assurance
Added to the plan	A2014-043	RTB leaseholders - charging for repairs	Final report issued	Little or no assurance
Added to the plan	A2015-013	Libraries SelfService Kiosk	Final report issued	Little or no assurance
Added to the plan	A2015-017	Intec iDIS Pen Test	Final report issued	Partial assurance
Added to the plan	A2015-007	UHL-LCC WiFi Pen Test	Final report issued	Substantial assurance
Added to the plan	A2015-009	Early Help Module Pen Test	Final report issued	Substantial assurance
Added to the plan	A2015-015	Pass It On Pen Test	Final report issued	Substantial assurance
Added to the plan	A2015-021	Leaseholder Reserve Fund 2015-16	Final report issued	Substantial assurance
Added to the plan	A2015-035	Supplier file maintenance - bank details	Final report issued	Substantial assurance
Added to the plan	A2015-025	EMAS Level 4: Audit of Environmental Statement 2014-15	Final report issued	Full assurance

Appendix A – Internal Audit Annual Report 2014-15

Appendix 2 – Audits Delivered 2015/16

Plan State	Ref	Title	Milestone as at end March 2016	Assurance Level
Added to the plan	02	SCITT 2015-16 (2014-15)	Final report issued	Not assessed
Added to the plan	A2014-062	TREC and SDS VolSec – casework audit	Final report issued	Not assessed
Added to the plan	A2014-066	Thurnby Lodge Ward Funding	Final report issued	Not assessed
Added to the plan	A2015-001	INSPIRE Annex III New Burden Grant 2013-14	Final report issued	Not assessed
Added to the plan	A2015-011	Assessed & Supported Year in Employment (ASYE) Grant 2014-15	Final report issued	Not assessed
Added to the plan	A2015-022	NNDR3 Return (2014-15)	Final report issued	Not assessed
Added to the plan	A2015-026	EMAS Annual Report 2014-15	Final report issued	Not assessed
Added to the plan	A2015-034	Children's Safeguarding - budgets	Final report issued	Not assessed
Added to the plan	A2015-037	Service Charges 2014-15 (Blueprint Phoenix Square)	Final report issued	Not assessed
Added to the plan	S2015-007	Merrydale Infant School SFVS - TRADED	Final report issued	Not assessed
Added to the plan	S2015-008	Spinney Hill Primary - Private Funds - TRADED	Final report issued	Not assessed
Planned	A2014-010	Website Security Assessment	Revised draft issued	
Planned	A2015-038	Concerto Access Controls follow-up	Response to draft report received	
Planned	A2015-039	Early Help Module IT Security	Response to draft report received	
Added to the plan	A2015-036	Firmstep CRM	Response to draft report received	
Planned	A2014-049	Licensing Income	Draft report issued	
Planned	A2015-023	Children's Services – Information Governance (Learning, Quality and Performance Division)	Draft report issued	
Planned	A2015-033	Customer Services - Payment Kiosks	Draft report issued	
Planned	A2014-005	Visit Leicester Centre	Fieldwork complete	
Planned	A2015-028	Perf Mgmt - Ofsted Children's Services review	Fieldwork complete	
Planned	S2015-018	Lancaster School - Financial Audit	Fieldwork complete	
Added to the plan	A2015-040	Toptix box office - IT security	Fieldwork start	
Planned	A2015-008	IMPACT ASC Web Portal Pen Test	Start Audit	
Planned	A2015-031	Broadband UK (BDUK) grant certification	Start Audit	
Planned	A2015-029	Public Health - Obesity - compliance with NICE Guidance	Not started - client not ready	
Planned	S2015-009	The City of Leicester College - follow-up audit	Not started - client not ready	