

Leicester City Council Audit & Risk Committee
13 June 2018

**Report of Leicestershire County Council's Head of Internal
Audit & Assurance Service**

Internal Audit Service – Annual Plan 2018-19

Purpose

1. To provide the Audit & Risk Committee (the Committee) with an indication of internal audit work planned to be conducted during 2018-19.

Background

2. Part 2, 'Internal Control' of the Accounts and Audit Regulations (2015) provides at section 5 'Internal Audit' that, 'a relevant authority (Leicester City Council – 'the Council') must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. In January 2017, the City Mayor agreed to delegate the Council's internal audit function to Leicestershire County Council.
3. Leicestershire County Council Internal Audit Service (LCCIAS) conforms to the United Kingdom Public Sector Internal Audit Standards (PSIAS) revised in April 2017, and guidance provided by the accompanying CIPFA Local Government Advisory Note (LGAN).
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control). In order to form an opinion, the scope of internal audit work needs to be wide. The PSIAS require the HoIAS to prepare a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
5. Within its Terms of Reference the Committee has a duty to consider, challenge and approve (but not direct) Internal Audit's strategy and plan and monitor performance on an annual basis. The Committee is

designated as 'the Board' in the Council's Internal Audit Charter (revised March 2018).

Planning methodology

6. The provision of a risk based internal audit plan (the Plan) consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's governance framework, risk exposure and internal controls. The Plan has been devised to ensure that it delivers against the PSIAS i.e. that the internal audit activity must: -
 - a. assess and make appropriate recommendations to improve the Council's governance processes (including ethical and information technology governance).
 - b. evaluate the effectiveness and contribute to the improvement of risk management processes, and,
 - c. assist the Council in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement

7. Governance is defined in PSIAS as, '*The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives*'. Amongst a wide range of governance themed audits, the HoIAS plans to undertake audits of the components of the Assurance Framework (and in particular where other sources of assurance can be relied upon when forming the annual internal audit opinion); the composition of the Annual Governance Statement; adherence to and monitoring of the Employee Code of Conduct; Information Governance strands and assist with a review and revision of the Audit & Risk Committee's Terms of Reference.

8. Risk management is defined in PSIAS as, '*A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives*'. The PSIAS advise that when constructing the Plan, the HoIAS should take into account the risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. The Council's Corporate Management Team has responsibility for identifying and managing risk and, the design, implementation and operation of robust internal control systems. The HoIAS undertook a desktop evaluation of the Council's Corporate Risk Management Policy Statement and Strategy (2018) and found it to be in line with those at other local authorities. A specific audit is planned in order to provide assurance that the risk management policies and procedures are fit for purpose and being consistently applied allowing for an evaluation of the Council's current level of risk maturity. A wide range of other risk management themed audits are also planned which map to a number of the Council's Strategic and Operational Risks.

9. Internal Control is defined in PSIAS as, *'The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept'*. Part of the Plan requires annual audits on key elements of the significant financial and IT systems. These audits are often used by the Council's External Auditors to assist their risk appraisal before auditing the financial statements. A discussion will be held with the incoming External Auditors Grant Thornton to understand how best this may work. Other significant projects including ICT and information governance developments are targets for audit. A range of grant certifications fall in this category.
10. A contingency is retained for consulting (advisory), unforeseen risks, special projects and investigations and an allocation is reserved for the HoIAS' role in governance requirements (attendance at committees, form opinions and reports etc).
11. To further develop the scope of audit coverage, the HoIAS researches and evaluates where other/additional risk might occur to the Council using methods including: -
 - a. Consulting on emerging risks, planned changes and potential issues with the Corporate Management Team, the Head of Finance and the External Auditor
 - b. Evaluation of wider governance arrangements e.g. plans, committee reports, consultations and accounts
 - c. Comparisons against similar Councils' audit plans
 - d. 'Horizon scanning' new and emerging risks from professional and industry sources
 - e. The risks to critical 'business as usual' systems when focus or attention shifts to new projects or issues

The Internal Audit Plan 2018-19

12. The attached Plan for 2018-19 (Appendix) contains a wide scope of audits that should allow the HoIAS to form an opinion on the overall adequacy and effectiveness of the Council's control environment. It is comparable to the risks affecting other local authorities and contains risks highlighted by internal audit and risk management professionals.
13. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on what assurance can be given that risk is being sufficiently mitigated. There are usually four levels: full; substantial; partial; and little. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation. These recommendations are reported in summary to this Committee and will stay within its domain until the HoIAS is satisfied that action has been implemented (usually after a follow up audit has been conducted).

Occasionally, the auditor might report a number of recommendations that individually are not graded high importance but collectively would require a targeted follow up to ensure improvements have been made.

14. The Committee has a duty to review and challenge management's responsiveness to the internal audit findings and recommendations, seeking assurance that appropriate action has been taken where necessary and agreed recommendations have been implemented within a reasonable timescale.
15. LCCIAS also undertakes consulting/advisory type audits. Examples include advice, commentary on the effectiveness of management's intended control design and framework and potential implications of changes to/implementations of new systems, processes and policies.
16. Unplanned 'investigation' type audits may need to be undertaken. A small amount of resource will be required to finalise 2017-18 audits.
17. Within the Appendix: -
 - a. Column one shows indicative dates for the audit although these may change in discussion with management. Also, although the review of the Plan was postponed from the 23 March Committee, column one shows that work is already underway and in some cases completed.
 - b. Column two indicates which component of the control environment (governance, risk management or internal control) the audit primarily matches. There is quite often overlap.
 - c. Columns three and four show the audit category and audit name respectively
 - d. Column five shows where the HoIAS has tried to map audits against entries in the Council's risk registers either strategic (SRR) or operational (ORR)
 - e. Column six shows an indicative scope of the audit although this is usually firmed up with management before the audit engagement
 - f. Column seven contains a rationale for including an audit in the Plan. The reference to 'professional internal audit or risk management guidance', comes from a combination of the HoIAS monitoring emerging audit/risk advice and from his contacts with other HoIAS in Midlands and National networks.
18. The 2018-19 plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be recognised that it is only a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes, particularly in line of: -
 - a. continuing uncertainties presented by the severe pressures the Council faces.

- b. 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
 - c. the potential for change in the Council's organisational structures and management responsibilities.
19. The HoIAS will discuss and agree any material changes with the Head of Finance and if required members of the Corporate Management Team and these would be reported to the Committee.
20. Detailed Terms of Engagement covering each audit's scope and any areas for exclusion are agreed with the relevant risk owners in advance of each audit.

Progressing the Audit Plan

21. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with the Council's management. LCCIAS' role and responsibility is to carry out independent and objective audits and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
22. On completion of each audit, findings will be discussed with the appropriate risk owner before issuing a draft report including to the Head of Finance. Final reports will be sent to Directors.
23. The HoIAS will meet with the Head of Finance to discuss progress and any issues arising each quarter. A progress report containing audits completed and summaries of any 'high importance' recommendations will be brought to each Committee.

Resource Implications

24. The Council pays for LCCIAS to provide its internal audit activity

Equal Opportunities Implications

25. There are **no specific** equal opportunities implications contained within the annual summary of work undertaken

Legal Implications

26. There are no direct 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.

Recommendations

27. The Audit & Risk Committee is recommended to: -
- a. Receive the report, note its contents and seek clarification on any areas of the plan as they wish and then approve the plan.
 - b. Make any recommendations or comments it sees fit either to the HoIAS or Director of Finance.

Background Papers

The Constitution of Leicester City Council
Accounts and Audit Regulations (Amendment) 2015
The Public Sector Internal Audit Standards (revised from April 2017)
Leicester City Council Internal Audit Charter (March 2018)

Circulation under Sensitive Issues Procedure

None

Officer to Contact

Neil Jones
Head of Head of Internal Audit & Assurance Service
Leicestershire County Council
Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

Appendix

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