

Report of the Chief Officer (Financial Services)

Report to Corporate Governance and Audit Committee

Date: 16 March 2018

Subject: Internal Audit Plan 2018-19

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the council's corporate governance arrangements.
2. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to deliver an annual internal audit opinion and report that can be used by the council to inform its governance statement. The standards also refer to the need for a risk-based plan to take into account the requirement to produce an annual internal audit opinion which includes input from management and the Corporate Governance and Audit Committee. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval.
3. The Terms of Reference for the Corporate Governance and Audit Committee include the consideration of the council's arrangements relating to internal audit requirements and specifically, reviewing and approving the risk-based plan and any additional significant work.
4. This report therefore provides members with the proposed Internal Audit Plan for 2018-19.

Recommendations

5. The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2018-19.

1 Purpose of this report

- 1.1 The purpose of this report is to present the proposed Internal Audit Plan for 2018-19 to the Corporate Governance and Audit Committee for review and approval. This report also includes a summary of the basis for the plan. The plan has been developed in consultation with senior management.

2 Background information

- 2.1 The Corporate Governance and Audit Committee has responsibility for reviewing the adequacy of the council's corporate governance arrangements.
- 2.2 The Public Sector Internal Audit Standards (PSIAS) set out the standards for internal audit and apply to all public sector internal audit service providers. They include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the Corporate Governance and Audit Committee. Standard 2020 requires that internal audit plans are communicated to senior management and the Committee for review and approval.
- 2.3 The Chief Officer (Financial Services), as the council's Section 151 Officer, is responsible under the Local Government Act 1972 for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of Internal Audit is an important source of information for the Chief Officer (Financial Services) in exercising his responsibility for financial administration.

3 Main issues

3.1 Background

- 3.1.1 Internal audit contributes to Leeds City Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the council's objectives
- 3.1.2 Internal audit also supports the Chief Officer (Financial Services) in discharging his statutory duties. The following are two key pieces of legislation that internal audit supports the Chief Officer (Financial Services) to comply with:
- Section 151 of the Local Government Act 1972. The Chief Officer (Financial Services), as the council's Section 151 Officer, is responsible under the Local Government Act for ensuring that there are arrangements in place for the proper administration of the authority's financial affairs. The work of internal audit is an important source of information for the Chief Officer (Financial Services) in exercising his responsibility for financial administration.
 - The Accounts and Audit Regulations 2015. The regulations state that 'A relevant authority must undertake an effective internal audit to evaluate the

effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.

- 3.1.3 The PSIAS set out the standards for internal audit and include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the ‘Board’. Within Leeds City Council, the Corporate Governance and Audit Committee fulfils the key duties of the Board laid out in the PSIAS. This report sets out the proposed plan for 2018-19.

3.2 The Planning Process

- 3.2.1 The PSIAS require that the Head of Internal Audit *‘must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.’* The standards state that the risk-based plan should take into account the requirement to produce an annual internal audit opinion and report that is used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. To support this, the risk-based plan needs to include an appropriate and comprehensive range of work. There also needs to be a balance between breadth (taking a broad look at governance and risk management) and depth (drilling down into specific areas where internal audit can provide valuable insight).
- 3.2.2 Given the resources available for internal audit, there will continue to be a need for greater reliance to be placed on management controls within the internal control framework and for a potentially higher level of risk to be accepted. Directorate Leadership Teams must have appropriate arrangements in place to ensure that they have assurance on key risk areas and that the risk management process supports and enables the delivery of objectives. Internal audit resource will need to be focused on the most significant risk areas and on the robustness of financial control.
- 3.2.3 In line with the PSIAS the proposed audit plan has been devised adopting a risk based approach using the following sources:
- the council’s risk management processes and the corporate and directorate risk registers;
 - the results of previous internal audit work and our ongoing assessment of the auditable entities within the authority;
 - planned work deferred from 2017-18;
 - awareness of relevant local and national issues;
 - consultation with Corporate Governance and Audit Committee, the council’s Section 151 Officer, the Corporate Leadership Team, and other senior management and colleagues from across the organisation; and
 - regular dialogue with the core cities and authorities within South and West Yorkshire helps to ensure that we are aware of emerging risks within other councils so that they can be considered during audit planning.
- 3.2.4 The outputs from the planning process have been prioritised to produce a plan that balances the following:

- the requirement to give an objective and evidenced based opinion on aspects of governance, risk management and internal control;
- the time required for anti-fraud and corruption activity
- the requirement for internal audit to add value through improving controls, streamlining processes and supporting corporate priorities;
- the need to retain a contingency element to remain responsive to emerging risks; and
- the resource and skill mix available to undertake the work.

3.3 Resources

- 3.3.1 There are 18.46 FTEs in the Internal Audit team. The number of days allocated in the plan to specifically provide the Head of Internal Audit with the evidence for the opinion on the control environment is 2,586 days (2017/18 – 2,426 days.) The level of resources required to provide internal audit services to external clients is 177 days. The total Internal Audit Plan for 2018/19 is therefore 2,763 days (2017/18 – 2,673 days). In my opinion, this is sufficient to perform the work necessary to deliver the annual internal audit opinion and report that is used by the organisation to inform its governance statement.

3.4 Internal Audit Plan 2018/19

- 3.4.1 Appendix A provides a breakdown of the individual audits that are proposed for inclusion within the audit plan for 2018/19. The work is grouped at directorate level or functional area to align with risk registers and accountabilities. An overview of the assurance that each audit aims to achieve is provided together with an estimate of the audit resource that will be required to complete the review.
- 3.4.2 The plan is designed to be responsive in nature and all efforts will be made to maximise coverage to provide an effective internal audit service that focuses on those key issues facing the organisation throughout the year.
- 3.4.3 Progress against the plan will be monitored throughout the year and key issues will continue to be reported to the Corporate Governance and Audit Committee.

3.4.4 Table 1: Comparison with Internal Audit Plan 2017/18

Assurance Block	Days in 2017/18 Plan	Days in 2018/19 Plan	% Change
Anti-Fraud and Corruption	316	318	+1%
Grants / Head of Audit Assurances	92	85	-8%
Data analytics	150	150	0%
ICT and Information Governance	110	205	+86%
Key Financial Systems	438	433	-1%
Procurement	180	220	+22%
Directorate risks	820	945	+15%
Schools	50	50	0%
Follow up and General Contingency	270	180	-33%
Total Assurance Days	2426	2586	+7%
Other			
External Contracts	247	177	-28%
Total Other	247	177	-28%
Total Days	2673	2763	+3%

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This report did not highlight any consultation and engagement considerations.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

4.3 Council policies and Best Council Plan

4.3.1 The Terms of Reference of the Corporate Governance and Audit Committee require the Committee to review the adequacy of the council's corporate governance arrangements (including matters such as internal control and risk management.) They also require the Committee to consider the council's arrangements relating to internal audit requirements including reviewing and approving the risk-based plan and any additional significant work.

4.3.2 The council's Financial Regulations require that an effective internal audit service is provided in line with legislation and the appropriate audit standards to help the organisation accomplish its objectives.

4.4 Resources and value for money

- 4.4.1 In relation to resources and value for money, the internal audit work plan includes a number reviews and initiatives in line with the council's value of spending money wisely. These will be included in the regular update reports to the Committee.
- 4.4.2 The Internal Audit Quality Assurance and Improvement Programme and service development work that is reported to the Committee demonstrates that the efficiency and effectiveness of the section is continually improving.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 None.

4.6 Risk Management

- 4.6.1 The Internal Audit Plan will continue to be subject to constant review throughout the financial year to ensure that audit resources are prioritised and directed towards the areas of highest risk. This process incorporates a review of information from a number of sources, one of these being the corporate risk register.
- 4.6.2 The risks relating to the achievement of the Internal Audit Plan will be managed through ongoing monitoring of performance and resource levels. This information will continue to be reported to the Committee.

5 Conclusions

- 5.1 The proposed Internal Audit Plan for 2018-19 has been prepared in line with the PSIAS. A risk-based approach has been used to prioritise internal audit work and ensure there is sufficient coverage and internal audit resource to provide an evidence-based assurance opinion that concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 5.2 The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective internal audit service that focuses on those key risks facing the organisation throughout the year.
- 5.3 Progress against the plan will be monitored throughout the year and key issues will continue to be reported to the Corporate Governance and Audit Committee.

6 Recommendations

- 6.1 The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2018-19.

7 Background documents

- 7.1 None

Appendix A: Proposed Internal Audit Plan for 2018/19

Audit Area	Overview of Assurance	Audit Days
Anti-Fraud and Corruption		
Whistleblowing Hotline and Reactive Work	Risk assessment and investigation of allegations and referrals.	150
Anti-Fraud and Corruption Proactive Work	Risk-based work to prevent and detect fraud.	153
Anti-Fraud and Corruption Policy Update	Update of anti-fraud and corruption policies.	15
		318
Grants and Head of Audit Assurances		
Local Transport Capital Block Funding	Independent examination of accounts and / or assurance that the grant claim has been spent in accordance with the grant determination.	9
West Yorkshire Plus Transport Fund		5
Cycling Ambition Grant		5
Pot Holes Grant		5
Flooding Grant		5
Bus Subsidy Ring Fenced Grant		1
West Yorkshire Combined Authority Treasury Management Assurance		2
Troubled Families Grants		20
Disabled Facilities Grant		5
Childhood Obesity Grant		3
Schools Central Financial Controls		15

Audit Area	Overview of Assurance	Audit Days
Other grants / Head of Audit Assurances arising during the year		10
		85
Data Analytics		
Data Analytics	Evaluation of control effectiveness across key systems on an ongoing basis, highlighting and reviewing high risk events or transactions.	150
		150
ICT and Information Governance		
General Data Protection Regulation (GDPR)	To gain assurance that appropriate arrangements are in place to manage the risks associated with the new legal framework for data protection.	50
Acceptable Use Proactive Monitoring Framework	With reference to the Corporate Governance and Audit Committee meeting in September 2017, the audit will review the framework in place to monitor the use of LCC ICT equipment in line with the council's Acceptable Use Policy and test a sample of LCC owned devices.	40
Benefits Realisation	To review how the benefits realisation process for ICT projects is implemented across the authority.	20
Password Configuration	Deferred from 2017/18 pending the implementation of a new council Password Policy, the audit will test whether systems enforce the password requirements in line with the new policy.	10
ICT Projects	Time reserved to provide internal audit support for ICT related projects.	10
Externally Hosted Software	To provide assurance that there are adequate contractual arrangements in place where software is hosted by an external supplier.	10
Essential Services Programme	To provide assurance over the processes in place to develop and monitor the essential services programme.	25

Audit Area	Overview of Assurance	Audit Days
Management of the Cyber Incident Risk	To review how the Cyber Incident risk is being managed, including the effectiveness of the controls in place, back up processes and the assurance reporting arrangements.	25
Business Applications	Individual reviews of a sample of key computer applications, including system access and administration, input, processing and output controls.	15
		205
Key Financial Systems		
Benefits Reconciliations	A review of the reconciliation processes between Orchard, Academy and FMS for Housing Benefit and Council Tax Support.	10
Benefits: Assessment and Payments	To gain assurance over the processes and performance within the Benefits Assessment Unit, including ensuring that Housing Benefit and Council Tax Support payments are accurately processed and paid.	45
Council Tax	To gain assurance over the council tax processes for billing, income collection, recovery action, refunds and write offs.	30
Business Rates	To gain assurance over the business rates processes for billing, income collection, recovery action, refunds and write offs.	30
Capital Programme Central Controls	To gain assurance that expenditure in the capital programme is appropriately approved, controlled and monitored and that the accounting system provides accurate and timely information.	20
Financial Management Central Controls	To provide assurance over the central budget setting and budget monitoring arrangements.	10
Treasury Management and Bankline	To provide assurance that treasury management transactions are authorised, correct, appropriately recorded and reported, and are in line with relevant strategies and guidelines.	25
Housing Rents	To gain assurance over the housing rents processes for charging, income collection, amendments and write offs.	20

Audit Area	Overview of Assurance	Audit Days
Sundry Income Central Controls	To provide assurance over the central management of income collection for sundry charges raised within the council, including recovery procedures and write offs.	20
Sundry Income Directorate Reviews	To provide assurance that all income is identified and requests for sundry income accounts are promptly and accurately raised for a sample of service areas.	30
Income Management System	To provide assurance over the systems that ensure all sources of income have been identified and accurately processed through the Income Management System.	14
Payroll Central Controls	To provide assurance over the integrity of central payroll functions, including the accuracy of payments made and the authorisation and processing of new starters and leavers.	70
FMS Creditor Purchase and Payment; Central and Directorate Processes	A review of the system through which orders are raised and payments are made to suppliers for goods and services.	50
Central Purchasing Card Controls	To provide assurance over the central purchasing card functions performed by the Central Payment Services Purchasing Card Management Unit.	10
Bank Reconciliation and Cash Book	The audit assesses the accuracy and timeliness of the reconciliations performed on the cashbook and the authority's main accounts.	24
Total Repairs	To provide assurance that there are adequate systems in place to ensure that payments made through the Total Repairs system are made to the correct creditor for goods / services which have been provided to the council and that the payments are accurately recorded within the council's accounting system.	25
		433
Procurement		
Procurement Maturity Review	This audit will review organisational procurement arrangements against best practice, including the assessment and management of contracting risk.	30
Contract Management	Individual reviews of contract management arrangements on a sample of contracts to gain assurance that they are being managed to deliver their intended outcomes, incorporating open book review where necessary.	100

Audit Area	Overview of Assurance	Audit Days
Procurement Category Actions	To review the effectiveness of the Category Management process in supporting the delivery of strategic procurement objectives.	30
Non and Off Contract Spend	To review the root causes for non and off contract expenditure and the processes for identifying and addressing non-compliant spend.	30
Waivers of Contract Procedure Rules (CPRs)	To review the governance arrangements in place for the approval and management of waivers of CPRs.	20
Emerging Procurement Risks	Time reserved for emerging procurement risks and unplanned work.	10
		220
Adult Social Care and Health		
Customer Information System (CIS) Payments	To provide assurance over the accuracy and legitimacy of direct payments and residential and nursing care payments made through CIS.	50
Payments to Providers of Homecare Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the January 2018 meeting.	10
Deprivation of Liberties Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the March 2018 meeting.	10
Learning Disabilities Pooled Budget	To provide assurance over the governance arrangements in place for the pooled budget.	25
Mental Capacity Act	A review of the controls in place that ensure the council is compliant with the requirements of the Mental Capacity Act.	25
Safeguarding Clients Personal Assets	To provide assurance that there are appropriate arrangements in place to safeguard the assets of the service user where the authority acts as a Deputy or Receiver.	25
Unannounced Visits	Individual establishment visits to provide assurance on cash handing arrangements, including the safeguarding of service users monies.	10

Audit Area	Overview of Assurance	Audit Days
		155
Children's and Families		
Governance Arrangements	To review the directorate's governance arrangements around decision making, reporting and assurance.	25
OfSTED Inspections	To gain assurance that there are effective arrangements in place for self-evaluation and ensuring that any recommendations arising from OfSTED inspections are monitored and implemented.	25
Children Looked After Services	To gain assurance that there are effective arrangements in place to manage and monitor the safe reduction of the numbers of children looked after.	30
Payments to Providers of Residential Care and Independent Fostering Agencies	To provide assurance over the efficiency and effectiveness of financial controls.	30
Cluster Model and Area Inclusion Partnerships (AIP)	A review of the arrangements in place to ensure that funding is spent effectively on intervention and inclusion, in support of the intended outcomes of the Cluster Model and AIPs.	25
Direct Payments Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the June 2017 meeting.	15
Unannounced Visits	Individual establishment visits to provide assurance on cash handling arrangements, including the safeguarding of service user monies.	10
Emerging Risks	Time reserved for emerging risks within the directorate and unplanned work.	20
		180
Schools		
Schools Audits	Individual audits of LCC maintained schools undertaken on a risk basis and audits of year end school voluntary fund accounts.	50
		50

Resources and Housing		
Belle Isle Tenant Management Organisation (BITMO) Assurance	Time set aside to provide assurance that the BITMO is managing the key risks that have been delegated under the Modular Management Agreement. Outline of specific assurance to be confirmed.	20
Annual Home Visits	A review of the Annual Home Visit process to ensure that outcomes from the visits are actioned and monitored appropriately.	25
Leeds Building Services Assurances	Time set aside to provide assurance that key risks relating to Leeds Building Services are appropriately managed. Outline of specific assurance to be confirmed.	30
Fire Safety	To provide assurance over the controls in place to mitigate the risk of fire in council properties.	25
Electrical Inspections	To provide assurance over the controls in place to mitigate the health and safety risks of electrical fault incidents in council properties.	25
Homelessness and Temporary Accommodation	A review of the arrangements in place for preventing and managing homelessness in the city.	25
Private Sector Regulation	A review of the processes in place for ensuring that Homes of Multiple Occupancy are licenced and inspected as appropriate.	25
Responsive Repairs	A review of the responsive repairs contract, focussing on charging, quality and performance monitoring.	30
Housing Leeds Follow Up Work and Contingency	To undertake follow up work as required during the year and respond to emerging risks within Housing Leeds.	45
Financial Management Maturity Review	A review of organisational financial management arrangements against best practice.	20
Apprentice Levy	A review of the arrangements in place to ensure that the Apprentice Levy is utilised effectively.	20
Right to Buy	A review of the processes in place to assess and manage Right to Buy applications.	15

Performance	Time set aside to provide assurance over performance reporting. Outline of specific assurance to be confirmed.	20
Civic Enterprise Leeds – Income Collection	To provide assurance that all external income is identified and collected.	20
LCC Vehicle Fleet Clean Air Zone Standards	Time set aside to support the directorate in ensuring that appropriate plans are in place to mitigate environmental risks relating to LCC's vehicle fleet.	15
Personal Service Companies	To gain assurance that the council is complying with the new HMRC responsibilities in relation to Personal Service Companies.	10
Application of HR Policies	To gain assurance that a sample of HR policies are consistently and properly applied across the authority.	20
Financial Due Diligence	A review of the arrangements in place to ensure that due diligence is consistently and appropriately applied before entering into an agreement or financial transaction with another party.	20
Passenger Transport	A value for money review of the in-house provision by the internal fleet and the external provision through the use of taxis and private hire vehicles.	20
Invest to Save – Benefits Realisation	To review how the benefits realisation process has been implemented for a sample of Invest to Save projects.	20
Staff Ideas Service	Ongoing maintenance of the Staff Ideas Service.	10
		460
Communities and Environments		
Parking Services	To review the systems in place for issuing parking permits and parking tickets, collecting income and managing appeals.	25
Child Poverty	A review of the arrangements in place to tackle child poverty across the city.	25
Recycling Strategy	To provide assurance that the council's recycling strategy is being effectively implemented.	20
Customer Satisfaction	A review of the processes that support continual improvement in respect of the	20

	customer experience.	
Unannounced visits	Individual establishment visits to provide assurance over cash handling arrangements.	10
		100
City Development		
Income collection	To provide assurance that all external income is identified and collected.	25
Community Infrastructure Levy and Section 106 Monies	To provide assurance that Community Infrastructure Levy and Section 106 Monies are collected, recorded and spent appropriately.	25
		50
Follow Up and General Contingency		
Follow Up and General Contingency	Time set aside for new emerging risks, unplanned work and to complete individual follow up audits of areas that have been given a low assurance audit opinion arising during the year.	180
		180
Total Assurance Days		2586