

**Report of the Chief Officer (Financial Services)**

**Report to Corporate Governance and Audit Committee**

**Date: 22 March 2019**

**Subject: Internal Audit Plan 2019-20**

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 provides Members with the proposed Internal Audit Plan for 2019-20.

**Recommendations**

5. The Corporate Governance and Audit Committee is asked to review and approve the proposed Internal Audit Plan for 2019-20.

## **1 Purpose of this report**

- 1.1 The purpose of this report is to present the proposed Internal Audit Plan for 2019-20 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 2019-20.

## **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 In line with the general reduction in financial services across the Council, the proposed plan for 2019/20 does represent a further reduction in the level of internal audit resources, and by implication the level of audit coverage. Whilst at this stage, the plan is considered to be sufficient to enable the Head of Audit to provide appropriate assurances in support of the statutory finance officer’s role, nevertheless, this will need to be monitored going forward. 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 2018-19;
- awareness of relevant local and national issues;
- consultation with Corporate Governance and Audit Committee, the Council’s Section 151 Officer, the Monitoring 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. This will be used to respond to emerging risks that may result from Brexit and to respond to any assurance requirements that the new Section 151 Officer may have when she starts in the role from April 2019; and
- the resource and skill mix available to undertake the work.

### **3.3 Resources**

3.3.1 There are 16.14 FTEs in the Internal Audit team (19.46 FTEs for 2018/19). 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 2122 days (2,586 days for 2018/19). The level of resources required to provide internal audit services to external clients is 127 days (177 days for 2018/19). The total Internal Audit Plan for 2019/20 is therefore 2249 days (2018/19 - 2,763 days).

3.3.2 Productive audit days were reduced by 469 during 2018/19 due to a number of staffing changes. We are currently in the process of recruiting two audit trainees and this will result in the number of days due to be delivered by the end of the 2018/19 financial year being almost equivalent to the audit days planned for 2019/20.

3.3.3 The reduction in resources has obvious consequences on the level of coverage that we can achieve. We will continue to develop our use of modern audit techniques to ensure that we deliver the audit coverage as efficiently and effectively as possible. In my opinion, the resources that are currently available are 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. Sufficient time has also been set aside for the management, development and training of team members, and to support their health and wellbeing.

### **3.4 Internal Audit Plan 2019/20**

3.4.1 Appendix A provides a breakdown of the individual audits that are proposed for inclusion within the audit plan for 2019/20. 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 At the Corporate Governance and Audit meeting in January 2019, Members discussed the following for inclusion into the Audit Plan 2019/20:

- PSN Certification – this has been incorporated into the ICT and Information Governance section of the Plan and is entitled ‘Access Database Project’
- Highways Contracts Review – this audit has been incorporated within the Procurement – Contract Management section of the 2018/19 Audit Plan and is currently underway.
- Members Casework – this area has been incorporated within the scope of the 2018/19 Customer Satisfaction audit that is currently ongoing.

3.4.4 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.

3.4.5 Table 1: Comparison with Internal Audit Plan 2018/19

Assurance Block	Days in 2019/20 Plan	Days in 2018/19 Plan	% Change
Anti-Fraud and Corruption	290	318	-9%
Grants / Head of Audit Assurances	107	85	+26%
Data analytics	100	150	-33%
ICT and Information Governance	150	205	-27%
Key Financial Systems	364	433	-16%
Procurement	175	220	-20%
Directorate risks	735	945	-22%
Schools	50	50	-
Follow up and General Contingency	151	180	-16%
<b>Total Assurance Days</b>	<b>2122</b>	<b>2586</b>	<b>-18%</b>
<b>Other</b>			
External Contracts	127	177	
<b>Total Other</b>	<b>127</b>	<b>177</b>	
<b>Total Days</b>	<b>2249</b>	<b>2763</b>	

## 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 2019-20 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 2019-20.

## **7 Background documents**

- 7.1 None

Appendix A: Proposed Internal Audit Plan for 2019/20

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.	125
Anti-Fraud and Corruption Policy Update	Update of anti-fraud and corruption policies.	15
		<b>290</b>
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
Cycle City Ambition Grant		5
Pot Holes Grant		5
National Productivity Investment Funds		11
Leeds Public Transport Investment Programme		5
Additional Highways Maintenance Grant		5
Bus Subsidy Ring Fenced Grant		2
West Yorkshire Combined Authority Treasury Management Assurance		2
Families First Earned Autonomy		20
Disabled Facilities Grant		5

<b>Audit Area</b>	<b>Overview of Assurance</b>	<b>Audit Days</b>
Childhood Obesity Grant		3
Schools Central Financial Controls		15
Grants to be confirmed		15
		<b>107</b>
<b>Data Analytics</b>		
Data Analytics	Evaluation of control effectiveness across key systems on a routine basis, highlighting and reviewing high risk events or transactions	100
		<b>100</b>
<b>ICT and Information Governance</b>		
Privileged User Access	To ensure that there are appropriate procedures in place to manage privileged user accounts.	25
Access Database Project	To provide assurance that the Council is aware of all access databases that require action and that there are appropriate plans in place to ensure that the deadline for PSN compliance is met.	20
Community Cloud	To provide assurance that the Community Cloud project is being managed to deliver its intended outcomes.	20
Application Portfolio Programme	To review how non-compliant systems are identified and the mechanisms in place to move these towards compliance.	25
Information Asset Registers	To provide assurance that the Council is aware of all data that it holds so that it can be managed and secured in line with legislation.	25
Information Governance Policy Reviews	To provide support to the business in the development of the new Information Governance Policies.	10

<b>Audit Area</b>	<b>Overview of Assurance</b>	<b>Audit Days</b>
ICT Projects	Time reserved to provide internal audit support for ICT related projects.	10
Business Applications	Individual reviews of a sample of key computer applications, including system access and administration, input, processing and output controls.	15
		<b>150</b>
<b>Key Financial Systems</b>		
Benefits Reconciliations	A review of the reconciliation processes between Orchard, Academy and FMS for Housing Benefit and Council Tax Support.	9
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.	27
Council Tax	To gain assurance over the Council Tax processes for billing, income collection, recovery action, refunds and write offs.	27
Business Rates	To gain assurance over the business rates processes for billing, income collection, recovery action, refunds and write offs.	40
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.	18
Financial Management Central Controls	To provide assurance over the central budget setting and budget monitoring arrangements.	9
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.	23
Housing Rents	To gain assurance over the housing rents processes for charging, income collection, amendments and write offs.	19
Sundry Income Central Controls	To provide assurance over the central management of income collection for sundry	18

Audit Area	Overview of Assurance	Audit Days
	charges raised within the Council, including recovery procedures and write offs.	
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.	20
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.	13
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.	50
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.	40
Central Purchasing Card Controls	To provide assurance over the central purchasing card functions performed by the Central Payment Services Purchasing Card Management Unit.	9
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.	22
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.	20
		<b>364</b>
<b>Procurement</b>		
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 a review of contract extensions and open book review where necessary.	100
Procurement Category Actions	To review the effectiveness of the Category Management process in supporting the delivery of strategic procurement objectives.	30

<b>Audit Area</b>	<b>Overview of Assurance</b>	<b>Audit Days</b>
Social Value	To review the arrangements in place to ensure that social value outcomes are appropriately considered and delivered through procurement.	30
Waivers of Contract Procedure Rules (CPRs) 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 2019 meeting.	15
		<b>175</b>
<b>Directorate Risks - Adult Social Care and Health</b>		
Customer Information System (CIS) Payments	To provide assurance that payments are only made in relation to people with an assessed need, have been correctly processed and are net of any client contribution. The review will also provide assurance on the adequacy of controls for identifying changes in circumstances.  The review will cover all payments made through CIS for Residential and Nursing Care, Direct Payments and Homecare payments	25
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
Strength Based Approach to Social Care	To provide assurance that there are controls in place to ensure the Council complies with legislative requirements.	20
Short Break Service	To review the new process to ensure that service users are receiving the right tier of support, it has been properly authorised, providers have been paid and that the outcomes are managed / monitored.	20
Third Sector / Not for Profit Organisations	To review the arrangements in place to gain assurance that third sector / not for profit groups are delivering their agreed services and objectives.	25

<b>Audit Area</b>	<b>Overview of Assurance</b>	<b>Audit Days</b>
Income Recovery	To provide support to the directorate's Income Recovery Project to gain assurance that all income due is identified and there are appropriate processes in place to ensure that it is billed and collected.	20
Unannounced Visits	Individual establishment visits to provide assurance on cash handling arrangements, including the safeguarding of service users monies.	10
		<b>140</b>
<b>Directorate Risks - Children and Families</b>		
In-house Fostering, Special Guardianship and Leaving Care Follow Up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	25
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
School Attainment	To provide assurance that there are mechanisms in place to monitor school attainment for all children and that appropriate action is taken where issues are identified.	25
Personal Education Plans	To ensure that there are quality personal education plans in place that are clear and consistent, provide purposeful targets and are subject to regular review.	25
Budget Pressures	To gain assurance over the processes in place to manage the budget pressures within the directorate.	25
Programme of Unannounced Visits	Individual establishment visits to provide assurance on cash handling arrangements, including the safeguarding of service user monies	10
		<b>135</b>
<b>Directorate Risks - Housing</b>		
Housing Disrepair Follow-up	To review progress in implementing the recommendations made in the previous audit, reported to the Corporate Governance and Audit Committee at the November 2018	10

Audit Area	Overview of Assurance	Audit Days
	meeting.	
Leeds Building Services Information Governance (Records Management) 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 2018 meeting.	10
Private Sector Regulation (Houses of Multiple Occupancy) 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 2019 meeting	10
Fire Safety	To provide assurance over the controls in place to mitigate the risk of fire in Council properties.	25
Lettings Enforcement follow-up and new system review	The review will follow up on the recommendations which remain outstanding since the September 2018 follow-up review. Additional work will also be undertaken on the implementation of the new system and the roll out of the revised lettings policy.	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. To include gaining assurance that the recommendations made across previous audits are being tracked and implemented.	40
Universal Credit	This review assesses the arrangements that have been put in place to support tenants moving to Universal Credit	25
Gas Servicing	To provide assurance over the controls in place to mitigate the health and safety risks of gas fault incidents in Council properties, including the arrangements in place to ensure works identified through the gas servicing process are undertaken.	25
Estate Management	To provide assurance that there are adequate arrangements in place to manage estates to the required standard and that best practice is shared across areas.	25
BITMO Assurance	To provide support to Housing Partnerships in the management of the BITMO Assurance Framework	20
Council Housing Growth	To review the procurement strategy and provide assurance over the achievement of intended outcomes.	20

<b>Audit Area</b>	<b>Overview of Assurance</b>	<b>Audit Days</b>
Housing Leeds In-Year Follow Up Work and Contingency	To undertake follow up work as required during the year and respond to emerging risks within Housing Leeds.	15
		<b>250</b>
<b>Other Directorate Risks</b>		
Delivery of the Medium Term Financial Strategy	Review of the arrangements in place to achieve the expected outcomes set out within the Medium Term Financial Strategy.	50
Partnership Risk Management	To review the central arrangements in place for managing risk with partners.	25
Application of HR Policies	To gain assurance that a sample of HR policies are consistently and properly applied across the authority.	20
Civic Enterprise Leeds	Time set aside to provide assurance that key risks relating to Civic Enterprise Leeds are appropriately managed. Outline of specific assurance to be confirmed.	20
Community Cohesion / Locality Working	To review the governance arrangements in place to identify and address the barriers to community cohesion in the city.	25
Funding from the Communities and Environment directorate to the third sector	To review the arrangements in place to gain assurance that third sector / not for profit groups are delivering their agreed services and objectives.	20
Strategic Investment Fund Acquisitions	To review the directorate's approach to, and governance of the Strategic Investment Fund. The audit will aim to provide assurance that there are appropriate controls over the acquisitions and management and that strategic investment fund plans are adequately scrutinised, approved and align with Council plans and wider best practice.	25
Flood Alleviation Scheme	To review the operational readiness of the Flood Alleviation Scheme	20
Income Review - Room Hire Follow Up	To review progress in implementing the recommendations made in the recent audit as reported to the Corporate Governance and Audit Committee at the November 2018 meeting.	5
		<b>210</b>

Audit Area	Overview of Assurance	Audit Days
Schools		
Schools Audits	Individual audits of LCC maintained schools undertaken on a risk basis and audits of year end school voluntary fund accounts.	50
		<b>50</b>
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.	151
		<b>151</b>
<b>Total Assurance Days</b>		<b>2122</b>