



**Internal Audit Plan
2016-17**

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Section 1

1.1 Background

1.1.1 The definition of internal audit is set out in the Public Sector Internal Audit Standards (PSIAS):

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

1.1.2 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 key priorities.

1.1.3 Internal audit also supports the Deputy Chief Executive in discharging his statutory duties. The following are two key pieces of legislation that internal audit supports the Deputy Chief Executive to comply with:

- Section 151 of the Local Government Act 1972. The Deputy Chief Executive, 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 Deputy Chief Executive 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 audit¹ to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’. The work of internal audit provides a substantial element of this requirement.

1.1.4 The PSIAS came into force on 1 April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The

¹ ‘Effective internal audit’ is defined by the Department for Communities and Local Government as compliance with the Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note for the PSIAS.

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 document sets out the proposed plan for 2016-17.

1.2 *The planning process*

- 1.2.1 The PSIAS Performance Standard 2010 - Planning states that: 'The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.' Within Leeds City Council, the role of Chief Audit Executive is undertaken by the Head of Internal Audit.
- 1.2.2 The standards refer to the need for the risk-based plan to 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.)
- 1.2.3 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 2015-16;
 - awareness of relevant local and national issues;
 - consultation with Corporate Governance and Audit Committee, the council's Section 151 Officer, 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.

1.3 *The annual plan*

- 1.3.1 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.

1.4 Assurance Blocks

Directorate

- 1.4.1 In previous years, the Internal Audit Plan has included assurance blocks for Compliance, Risk Based Audit and Spending Money Wisely. This year, the work in these areas will be incorporated within an assurance block for each directorate to align with risk registers and accountabilities. These reviews assess the effectiveness of risk management, control, and governance processes within directorates and the central corporate function. Within this area there are specific audits identified for each directorate based on their key risks and priorities.

Continuous Audit

- 1.4.2 The proposed plan features a new cross cutting programme of continuous audit. This assurance block aims to evaluate control effectiveness across key systems on an ongoing basis and highlight high risk transactions or events on a timely basis. This programme of work will inform some of the work undertaken within the anti-fraud and corruption assurance block. This work is an innovative approach to ensuring wider coverage of key transactions in an efficient manner, using technology to mitigate the risks arising from a reduced internal audit resource.

Key Financial Systems

- 1.4.3 This work focusses on the control arrangements within the council's core financial systems to assess whether they are adequate to allow the council to conduct its business appropriately. The work provides the Section 151 Officer with a key element of his assurance that the council has effective arrangements for the proper administration of its financial affairs.
- 1.4.4 Any changes to the key financial systems reviews are discussed with external audit to ensure the audit work of external audit and internal audit are linked as efficiently and effectively as possible.

Procurement

- 1.4.5 Within this assurance block, time has been allocated for a number of cross cutting contract, programme and project reviews. The reviews will cover a variety of goods and services and will incorporate different procurement models, including large scale contracts with single suppliers and those where a framework model is in place with a number of suppliers. The reviews will cover a range of activities including:
- contract monitoring
 - initial procurement
 - contractor performance monitoring
- 1.4.6 Time has also been allocated to support the development of training for staff on Contract Procedure Rules to assist in embedding the council's value of Spending Money Wisely across the organisation.

Anti-Fraud and Corruption

- 1.4.7 The reduction in staff and controls across the council gives rise to a greater risk of fraud and/or not detecting fraud. Fraud risks are considered across the audit planning process within the scope of all relevant audits. In addition to this, the Anti-Fraud and Corruption assurance block allocates resources to proactive and reactive approaches to reinforce the council's zero tolerance approach to fraud and corruption across the organisation.
- 1.4.8 The reactive element covers the risk assessment process for referrals received through whistleblowing channels, with a further allocation of time and resource for investigation where appropriate. The resource allocated to this area will be kept under review throughout the year and may need to be increased depending on the volume and complexity of referrals received as well as the capacity and capability of management within services to conduct investigations with targeted internal audit support.
- 1.4.9 The proactive strand includes exercises and data analytical work to identify potential fraud and misappropriation, alongside a review of the anti-fraud and corruption measures in place across the organisation.

ICT and Information Governance

- 1.4.10 This work focusses on providing assurance that the risks relating to ICT and information governance are being effectively managed. The work includes individual reviews of key computer applications, a review of the business continuity arrangements and an assessment of the central arrangements in place

for the security of information and compliance with the council's Security Management System.

Housing Leeds (funded work)

- 1.4.11 Housing Leeds has indicated that they require the same level of audit coverage as in previous years. The detailed plan for this area will be developed in quarter 1 of 2016-17 in conjunction with the Senior Leadership team within Environment and Housing.

Contingency

- 1.4.12 The audit plan contains a contingency provision that is utilised during the year in response to unforeseen work demands and emerging risks that arise. This includes the provision of ad-hoc advice and responding to queries from directorates and service areas across the council. Where new risks emerge the work will be undertaken initially through the use of contingency or through substituting other audits in the plan on a risk basis.

1.5 *Resources*

- 1.5.1 The audit plan needs to be deliverable within available resources. There are 2,897 days available for audit assignments for 2016-17. 197 days of this relates to income generating work for external clients. This compares to 4,217 days at the start of 2015-16, and represents a reduction of 31% against 2015-16 planned resources.
- 1.5.2 Actual productive resources for 2015-16, however, are likely to be 3,440 days (projected figure as at February 2016) due to a number of staff changes that occurred in-year. Planned resources for 2016-17 are therefore 16% less than the projected actual productive resources for 2015-16.
- 1.5.3 The proactive measures taken to minimise the impact of the reduction in internal audit resources include the following:
- A number of the internal audit team undertook training on data analytics and computer aided audit techniques during 2015-16. This has increased the assurance we can achieve from each audit day for a number of audit assignments. The introduction of the continuous auditing programme in 2016-17 will further develop this method of gaining assurance;
 - The ongoing risk assessment work ensures that resources are targeted to the highest priority areas; and

- The quality assurance and improvement programme and service development work demonstrates that our efficiency and effectiveness is continually improving.

- 1.5.4 Given the reduction in resources, there will 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.
- 1.5.5 The above mentioned assurances will continue to be developed and increased and these, taken together with the work of internal audit, will provide the assurance coverage necessary to support the needs of the Corporate Governance and Audit Committee.

1.6 Conclusion

- 1.6.1 The proposed Internal Audit Plan for 2016-17 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.
- 1.6.2 The plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on those key risks facing the organisation throughout the year.
- 1.6.3 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.

Section 2

2.1 Comparison with Internal Audit Plan 2015-16

Assurance Block	2016/17 Plan		2015/16 Plan		2015/16 Projected Actual	
	Days	% of total assurance days	Days	% of total assurance days	Days	% of plan
Anti Fraud and Corruption	358	13%	694	17%	530	16%
Grants / Head of Audit Assurances	92	3%	108	3%	95	3%
Continuous audit	150	6%	0	0%	0	0%
Housing Leeds	250	9%	250	6%	250	8%
ICT and Information Governance	115	4%	245	6%	176	5%
Key Financial Systems	455	17%	718	18%	544	17%
Procurement	235	9%	315	8%	222	7%
Schools	30	1%	60	2%	57	2%
Schools - 6th Form Funding	0	0%	40	1%	17	1%
Follow up	85	3%	95	2%	111	3%
Cross cutting / Directorate	770	29%	1155	29%	966	30%
General Contingency	145	6%	300	8%	275	8%
Total Assurance Days	2685	100%	3980	100%	3243	100%
Other						
External Contracts	197		237		197	
Secondments	0		135		303	
PSIAS External Assessment	15		0		0	
Total Other	212		372		500	
Total Days	2897		4352		3743	

2.2 Internal Audit Plan 2016-17

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
Anti Fraud and Corruption		
Whistleblowing hotline and reactive work	Risk assessment and investigation of allegations and referrals.	100
Anti-fraud and corruption strategies and proactive work	Risk-based proactive work to prevent and detect fraud.	243
Anti-fraud and corruption policy update	Update of anti-fraud and corruption policies.	15
		358
Grants and Head of Audit Assurances		
Local Transport Capital Block Funding Grant (Integrated Transport and Highway Maintenance) Claim	Independent examination of accounts and /or assurance that the grant has been spent in accordance with the grant determination.	9
Flood and Coastal Risk Management Growth Fund Allocation (DEFRA) Grant Claim		6
West Yorkshire Combined Authority Treasury Management Assurance		2
Leeds City Region Core Cities Green Deal Grant Claim		7
Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Claim		5
Troubled Families Grant Claim		15
Schools Central Financial Controls		15
Education Funding Authority (EFA) 6th Form Funding and 16-19 Bursary Fund Grant Claim		4

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
Cycling Ambition Grant Claim		5
West Yorkshire Plus Transport Fund Grant Claim		5
Disabled Facilities Grant Claim		4
Assessed and Supported Year in Employment (AYSE) Grant Claim		5
Leeds City Region		10
		92
Continuous Audit		
Programme of continuous audit	Evaluation of control effectiveness across key systems on an ongoing basis, highlighting and reviewing high risk events or transactions. The programme will be updated throughout the year to include emerging risk areas and will include purchasing cards, creditor payments, manager self serve areas and overtime payments.	150
Housing Leeds		
Housing Leeds Assurance Framework Reviews	This is fully funded assurance work to inform the Housing Leeds Assurance Framework.	250
ICT and Information Governance		
System developments	To gain assurance that projects are managed in line with the approved strategy and the key risks are being managed effectively.	20
Business applications	Individual reviews of the key computer applications looking at system access and administration, input, processing and output controls.	30
Business continuity arrangements	To gain assurance that business continuity plans are in place that meet appropriate standards and are communicated effectively. The review will also assess whether systems for recovery have been risk ranked and plans have been tested and updated where necessary.	25

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
Data security	To gain assurance that adequate controls are in place and operating correctly for data capture and entry, user access management, equipment security, data storage, data transfer and availability.	20
Information governance - central arrangements	The review will assess the corporate arrangements in place for the security of information and compliance with the council's Security Management System.	20
		115
Key Financial Systems		
Housing Benefits - Accounting and Subsidy	System and compliance audits to provide assurance over the effectiveness of the council's key financial systems.	5
Housing Benefits - Assessment and Payments		30
Housing Benefits - Local Welfare Support Scheme		10
Benefits Counter Fraud		5
Universal Credit roll-out		14
Council Tax		30
Business Rates		45
Capital Programme		10
Financial Management Central Controls		10
Treasury Management and Bankline		23
Housing Rents		25
Sundry Income Central Controls		15
Sundry Income - Directorate Reviews		20
Income Management System		14
Payroll Central Controls		50
Creditors Central Controls (including duplicate		50

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
payments)		
Central Purchasing Card Controls		10
Bank Reconciliation and Cash Book		24
Key Financial Systems Year End Reconciliations		40
Total Repairs		25
		455
Procurement		
Procurement data analytics	Development of a programme of work to obtain procurement assurances through data analytics. This may include contract extensions, accurate estimation of contract costs, expenditure on expired contracts, and procurement fraud.	30
Procurement governance arrangements	The review will aim to provide assurance that central and directorate procurement arrangements are fit for purpose, regularly reviewed and communicated; that their effectiveness is monitored and reported; and that action plans are in place to improve performance where necessary.	40
Contract extensions	To gain assurance that decisions on whether to extend a contract are undertaken in a timely manner, VfM assessments of the options have been carried out, the contract extension has been approved before the contract expires, and if the contract was not extended then spend with the supplier has ceased.	25
Contract reviews	Individual reviews of contracts to gain assurance that they have been procured and managed in order to provide value for money.	70
Contract Procedure Rules training	Training for staff to improve awareness of Contract Procedure Rules.	10
Joint ventures	To provide assurance on the governance of joint ventures and assess how effectiveness is monitored.	20

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
Programmes and complex projects	To gain assurance that high risk projects are being managed in line with the council's project management methodology and best practice.	40
		235
Schools		
Schools	Individual audits of LCC maintained schools undertaken on a risk basis.	30
		30
Follow up		
Follow up audits	Individual follow up audits of areas that have previously been given a low assurance audit opinion.	85
		85
Adult Social Care		
Community Care Finance	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.	35
Risk Management and Business Continuity Arrangements	To gain assurance that directorates are managing identified risks in line with the council's risk management process.	25
Safeguarding arrangements	To review the adequacy of assurances obtained by the council in respect of the safeguarding arrangements in place for vulnerable adults.	30
Commissioning arrangements	To provide assurance that there are effective commissioning arrangements in place.	25
Direct Payments and Personal Budgets	To ensure that appropriate arrangements are in place for the administration and monitoring of direct payments and personal budgets.	20

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
Payments to providers of home care	To provide assurance that payments are for service users with eligible needs and are in line with approved support plans.	20
Payments to carers - Care Act	The review will aim to provide assurance over the payments to carers processes.	10
Unannounced visits	Individual establishment visits to provide assurance on cash handling arrangements, including the safeguarding of service user monies.	25
Information governance - directorate controls	To gain assurance on the security of personal data within the directorate and any relevant third parties.	20
Spending Money Wisely Challenge	These reviews assess how well staff are complying with the requirements of the council's Contract Procedure Rules and tests whether value for money can be evidenced for payments that are not linked to a contract.	10
		220
Public Health		
Public Health commissioning and contracts	To review the commissioning arrangements in place, including compliance with Contract Procedure Rules and governance arrangements.	30
		30
Children's Services		
Safeguarding arrangements	To review the adequacy of assurances obtained by the council in respect of the safeguarding arrangements in place within Children's Services.	30
Risk Management and Business Continuity Arrangements	The review aims to provide assurance that the directorate is managing identified risks in line with the council's risk management process.	25
Budget Strategies and Action Plans	To gain assurance on the robustness of action plans to address budget pressures.	30
Leaving Care	The review will aim to provide assurance on leaving care expenditure and the adequacy of existing policies and procedures.	20

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
Grants and payments to organisations	To gain assurance that organisations in receipt of grant income are achieving expected outcomes and contributing towards LCC priorities.	20
Information governance - directorate controls	To gain assurance on security of personal data within the directorate and any relevant third parties.	20
Spending Money Wisely Challenge	These reviews assess how well staff are complying with the requirements of the council's Contract Procedure Rules and tests whether value for money can be evidenced for payments that are not linked to a contract.	10
		155
Strategy and Resources		
Spending Money Wisely Ideas Service	On-going maintenance of the staff ideas service including responses to submissions and the transfer of information to directorate contacts.	20
Financial Governance and Control Arrangements for Partnerships	To review the Financial Governance and Control Arrangements for Partnerships register and ascertain assurance requirements.	20
Employee declaration of interests	An ethics-related audit that will assess the council's arrangements in place to ensure that any relevant employee interests are declared and appropriately managed. The audit will also test compliance with the policy.	10
Employee gifts and hospitality	An ethics-related audit that will assess the council's arrangements in place for promoting appropriate conduct in respect of gifts and hospitality and compliance with the policy.	10
Spending Money Wisely Challenge	These reviews assess how well staff are complying with the requirements of the council's Contract Procedure Rules and tests whether value for money can be evidenced for payments that are not linked to a contract.	10
Decision Making	To gain assurance that the scheme of delegation is being followed appropriately.	20

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
Central Risk Management	To ensure the risk management arrangements in place are in line with best practice and operating effectively.	20
Central Performance Management	The review will aim to give assurance that the Performance Management Framework is operating effectively to drive improvement and support effective decision making.	20
Insurance	To gain assurance that the council's insurance cover is based on complete and up to date information, addresses regulatory requirements, is risk assessed and provides VfM; that changes that have an impact on insurance are notified by directorates; that services are aware of and comply with insurance policy requirements; that claims are promptly notified to the insurance section and dealt with effectively.	20
		150
Citizens and Communities		
Community Asset Transfers	To ensure the processes in place meet with legislative requirements.	20
Customer Contact and Satisfaction	The review will focus on the arrangements in place within the council to capture service user satisfaction including the processes for handling complaints.	30
Electoral Roll	To review the arrangements in place that provide assurance over the integrity of the information contained within the electoral roll.	10
Spending Money Wisely Challenge	These reviews assess how well staff are complying with the requirements of the council's Contract Procedure Rules and tests whether value for money can be evidenced for payments that are not linked to a contract.	10
		70

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
City Development		
Community Infrastructure Levy	To gain assurance over the arrangements in place to ensure income is identified and collected, and that the monies are used in line with the intended purpose.	10
Flooding Grants	The review will provide assurance on the arrangements in place to pay grants to businesses and households following the December 2015 floods.	20
European Investment Fund	To gain assurance on the arrangements in place to address risks for LCC as the accountable body.	20
Spending Money Wisely Challenge	These reviews assess how well staff are complying with the requirements of the council's Contract Procedure Rules and tests whether value for money can be evidenced for payments that are not linked to a contract.	10
Planning Enforcement	The audit will review the governance structure in place to support decisions upon how the council will investigate and respond to breaches of planning control.	20
		80
Environment and Housing		
Key performance indicators	Individual compliance audits to provide assurance that performance indicators are correctly calculated and reported, and corrective action is taken where necessary to address any performance issues identified.	15
Spending Money Wisely Challenge	These reviews assess how well staff are complying with the requirements of the council's Contract Procedure Rules and tests whether value for money can be evidenced for payments that are not linked to a contract.	10
		25

Internal Audit Plan for 2016/17		
Audit	Overview of Assurance	Audit Days
Civic Enterprise Leeds		
Spending Money Wisely Challenge	These reviews assess how well staff are complying with the requirements of the council's Contract Procedure Rules and tests whether value for money can be evidenced for payments that are not linked to a contract.	10
Spending Money Wisely Review - Catering	To assist Civic Enterprise Leeds in the review of the Catering Service.	15
Spending Money Wisely Review - Passenger Transport	To assist Civic Enterprise Leeds in the review of the Passenger Transport Service.	15
		40
Contingency		
Contingency	Time reserved for new emerging risks and unplanned work.	145
		145
Total Assurance Days 2016-17		2685