



CORPORATE GOVERNANCE COMMITTEE – 13th MAY 2016

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE AUDIT PLAN 2016-17

Purpose of the Report

1. The purpose of this report is to provide members with information about the County Council's outline Internal Audit Plan for 2016-17 and internal audit resource allocated to other assurance functions and other organisations.

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, with a specific function to consider the annual Internal Audit Plan, which outlines where audit focus will be in 2016-17. Internal audit is an essential component of the Council's corporate governance and assurance framework.

Construction of the 2016-17 Plan

3. The Public Sector Internal Audit Standards (the PSIAS) require the Head of Internal Audit Service (HoIAS) to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the County Council's agenda and priorities. The plan must take into account the requirement for the HoIAS to produce an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment. The scope of internal audit activity should be wide ranging.
4. 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.

5. The HoIAS is responsible for the development, monitoring and reporting of the Council's corporate risk management framework. The annual review of the risk management policy and strategy in January 2016 concluded that the risk management maturity level remained at Level 3/4 – between Working and Embedded & Working - and whilst further development is necessary in some of the core areas, by and large, a robust framework exists within the Council.
6. Overseeing that the corporate framework is being consistently applied; reviewing the quarterly updating of department risk registers; confirming their consideration by departmental management teams and producing the Corporate Risk Register for review by the Corporate Management Team and this Committee, ensures the HoIAS is kept up to date with the risk environment. This increases confidence in the Council's approach to identifying, evaluating and managing risk, which in turn allows for greater reliance to be placed on management's risk assessments and internal audit resource to be better targeted and flexed in accordance with major shifts in the risk environment.
7. The HoIAS is also responsible for developing the Council's approach to countering the risk of fraud and corruption. A significant amount of work has been done to review, revise and develop a suite of anti-fraud and corruption policies, procedures and guidance, which has enabled the Council to report conformance to the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014). An exercise to identify fraud risks to the Council is conducted annually which facilitates targeted counter fraud audits and related activity.
8. One approach to managing the risk of financial loss is to insure against events occurring. The HoIAS has recently taken on the management of the Council's insurance function. This change will add to the knowledge about where internal audit assurance may be needed, e.g. to reduce the possibility of claims occurring.
9. The PSIAS require that the risk-based plan should explain the HoIAS' approach to using other sources of assurance when forming the annual internal audit opinion and any work required by LCCIAS to place reliance upon those other sources. The HoIAS is responsible for compiling the Annual Governance Statement (AGS). Part of this process includes receiving and reviewing departments' annual assurance statements. Directors are requested to identify and record specific examples of other sources of assurance both internal and external (e.g. independent assurance from inspections, compliance reviews etc.), the objective and scope of the assurance, when it occurred and what was the outcome/overall opinion.
10. Compiling the 2015-16 AGS has revealed some good information on other forms of assurance. The intention is to specifically focus some internal audit resource on developing this concept.

11. Furthermore, each individual audit engagement requires the auditor to identify any other assurances. Where these are considered as fundamental to the achievement of objectives, then a view on the robustness of the assurance will be formed. To assist this and avoid subjectivity, guidance developed by the Institute of Internal Auditors will be adopted.
12. Additionally, the HoIAS has scope to plan audits that are either outside of, or 'cut across' risk register boundaries, for example:
 - a. the requirement to undertake audits each year on the key financial systems which the Council's External Auditor (KPMG) can use in its judgement of risk before undertaking the annual audit of the financial accounts;
 - b. co-ordinating requests for information to support the National Fraud Initiative (NFI) for the Audit Commission;
 - c. certifications of grants and returns for government departments;
 - d. conducting specific follow up audits where high importance (HI) recommendations have previously been made to ensure action has been taken and the risk has been mitigated;
 - e. general advice on governance, risks and controls; researching County related emerging issues, and consulting with departments and reporting back to them, the Chief Financial Officer (CFO) and the Corporate Governance Committee;
 - f. a contingency remains for any unplanned audit work, including suspected frauds and other unknowns such as staff vacancies arising or job overruns because of unforeseen findings.
13. The 2016-17 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 in the Council's business, risks, operations, programs, systems, and controls. The HoIAS will discuss and agree material changes with the Director of Finance and these will be reported to the Committee.
14. 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. The Committee will continue to receive quarterly reports on progress against the plan detailing the audits completed, the category, what opinion was reached and summaries of any high importance recommendations.

Themes emerging in the 2016-17 Plan

15. Risks contained within Corporate and Departmental Risk Registers; departments' commissioning intentions and delivery plans; the Council's Strategic Plan; commissioning strategies and the Transformation Programme, remain key documents to explaining the Authority's current and future objectives and priorities and what are the key risks to achieving them. The formation of a Combined Authority hosted by the County Council, along with the associated Devolution Deals will be prominent, as will assistance with the response to the Goddard Inquiry.

16. Continuing areas of focus in 2016-17 include: -
 - a. The continuing impact of significant financial challenges and reductions in net expenditure; risk of failing to achieve savings;
 - b. The need for fundamental transformation of service delivery both front line and support services, enabling working more efficiently and effectively;
 - c. Embracing wider and more complex partnerships and devolved service delivery models, including fundamental shifts in commissioning and outsourcing;
 - d. Embracing a commercial culture aligned to reputation damage of any poor service delivery;
 - e. The impact of major changes in Government policy regarding the provision of health and social care services and children's services;
 - f. Increasing scrutiny and associated costs of protecting vulnerable people
 - g. Failing to plan for demographic changes which are increasing the demand for social care support;
 - h. The risks behind failure to further integrate health and social care services;
 - i. Dependency on information technology to support both transformational change and embedded processes;
 - j. The risks of failure to successfully implement systems changes
 - k. Requirements to secure information and data amongst a range of partners and users;
 - l. The requirement to embrace and continuously improve good governance especially requirements of the revised CIPFA/SOLACE Good Governance Framework (2016) and the Accounts and Audit Regulations 2015;
 - m. The impacts on staffing resources, including the need for learning and development, support and good management;
 - n. Countering the risk of fraud and corruption.

17. The plan also contains an allocation for servicing the corporate client, e.g. the HoIAS professional duties and servicing the Corporate Governance Committee, liaison with external auditors, corporate meetings, generic research and advice etc.
18. A summary plan of auditable areas is shown in the Appendix to this report.
19. Internal Audit Plans for organisations for which Leicestershire County Council is the accountable body (Eastern Shires Purchasing Organisation (ESPO), Leicestershire Local Pension Board and Bradgate Park Trust), or a strategic delivery partner (East Midlands Shared Services), are presented to their respective governance forums.
20. LCCIAS contracts commercially with the Leicestershire Fire Authority, academy schools and some Leicestershire district councils.

Resource Implications

21. The Service's budget includes a savings target in 2016-17. This translates into a reduced allocation of total days (incorporating other assurance functions) for the County Council from 1,250 to 1,125. There will need to be: -
 - a. continuing improvements in working practices and the extension of computer assisted audit techniques to further improve auditors' efficiency;
 - b. co-ordination of the four (sub) functions to optimise the overall assurance that can be given.

Equal Opportunities Implications

22. There are no discernible equal opportunities implications resulting from the audits listed.

Recommendation

23. That the Committee notes the Internal Audit Plan for 2016-17.

Background Papers

The Constitution of Leicestershire County Council

Circulation under the Sensitive Issues Procedure

None.

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Appendices

Appendix – Leicestershire County Council Summary internal audit plan 2016-17