



CORPORATE GOVERNANCE COMMITTEE
23 SEPTEMBER 2016

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE PROGRESS REPORT

Purpose of Report

1. The purpose of this report is to: -
 - a. provide a summary of progress against the Internal Audit Plan 2016-17;
 - b. report on progress with implementing high importance recommendations;
 - c. inform Members on the process proposed to allow them access to Internal Audit reports.

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the internal audit function, which is provided by Leicestershire County Council's Internal Audit Service (LCCIAS). To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan.
3. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are of a 'consulting' type, which are primarily advisory and guidance to management. These add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Also, unplanned 'investigation' type audits may be undertaken.

Summary of progress against the Internal Audit Plan 2016-17

4. This report covers the position up to 31 August 2016.
5. The outcome of audits completed since the last progress report to the Committee is shown in **Appendix 1**. For assurance audits an 'opinion' is given i.e. what level of assurance can be given that material risks are being managed. There are usually four levels: full; substantial; partial; and little. A report with at least one high importance recommendation would normally be classified as 'partial'. Audits of grants, returns to government are not graded.

6. Where the auditor's work has been quality reviewed by an Audit Manager, and there is confidence that the draft report findings and conclusions will be accepted by management and are unlikely to change, then the opinion is shown in the appendix. However, for audits that are awaiting review the opinion is not recorded.
7. The appendix shows reasonable progress has been made to the end of August, but there is a lot of work in progress that will be concluded in the early autumn. Some jobs previously reported as 'to be concluded' were carried into 2016-17. LCCIAS also undertakes consulting/advisory type audits. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes and policies. Also, Internal Audit Service staff has assisted colleagues in Strategic Finance to investigate/clear financial system errors and backlogs. Where these incur a reasonable amount of resource they are also included in Appendix 1.

Progress with implementing high importance recommendations

8. The Committee is also tasked with monitoring the implementation of high importance recommendations. **Appendix 2** details high importance (HI) recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Committee before or where LCCIAS has identified that some movement has occurred to a previously reported recommendation are shown in **bold font**. Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.
9. To summarise movements within Appendix 2: -
 - a. **New** - C&FS and CR – School's capital programme. A recommendation to formalise improved processes to mitigate the risk of significant variations to the capital programme, was accepted and implemented. Further work on the programme composition methodology may require internal audit input.
 - b. C&FS and A&C – Learning Disability Transitions. One HI regarding improved collaboration between the departments was closed in June. Whilst there has been some progress with the other two relating to caseload and forecasting, they are extended to October.
 - c. E&T - SEN transport risk assessments. Full implementation dates have been further extended. Additional assurances have been received that progress is being made.
 - d. E&T - Resource Allocation System. The recommendation on process improvements has been successfully implemented and closed. The other recommendation on management information will be included in a future audit around the needs of the re-structured highways service.

Process designed to allow Members access to Internal Audit Service reports

10. At the 13 May 2016 Committee meeting, Members acknowledged that Internal Audit reports were managed at departmental level and only those recommendations of high importance were reported to the Committee in accordance with its terms of reference. However, Members requested, and the Director of Corporate Resources undertook to give further consideration to a method of enabling Members to access completed internal audit reports outside the formal meeting with the aim of supporting and informing their overall understanding of the work being undertaken.
11. Following the meeting, the Head of Assurance Services (in his capacity as the Head of Internal Audit Service (HoIAS)), sought information from his peers within the Midlands' Counties Heads of Internal Audit Group on whether they gave their authority's Members access to full completed audit reports. Almost half reported to their Audit Committees in the same manner as LCCIAS i.e. they only provided the audit name and the opinion given but reported more detailed information on any high importance recommendations which had resulted in less favourable audit opinions being given. Nevertheless, there were examples where Members did have access to all completed reports and others which either occasionally shared full reports or provided an executive summary where the assurance opinion given was low. Where reports are made available, there is a clear requirement for safeguards around both redaction of any sensitive information and strict requirements to retain privacy and confidentiality.
12. Both the Public Sector Internal Audit Standards (PSIAS) and the accompanying CIPFA Local Government Advisory Note (LGAN) are not prescriptive about disseminating the results of individual internal audit engagements. Instead, they advise that the HoIAS should determine the circulation of audit reports within the organisation, having due regard to their confidentiality and legislative requirements.
13. The HoIAS is keen to strike a balance between fulfilling Members' interest; the need for sufficient safeguards to be established and trying to avoid additional administration. Therefore, he proposes that from 1st October 2016, after each meeting of the Corporate Governance Committee, Members will be able to request electronic copies of any completed (and signed off) internal audit reports relating to County Council audits, as set out in Appendix 1. This will mean that the current practice of including draft reports that are unlikely to change before being finalised (see paragraph 6 earlier) will no longer occur.

Resources Implications

14. None

Equal Opportunities Implications

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

Recommendations

16. That the contents of the report be noted.
17. That the proposal for allowing Members access to completed internal audit reports is agreed.

Background Papers

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 13 May 2016 - Internal Audit Plan for 2016-17

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

Neil Jones, Head of Assurance Services

Tel: 0116 305 7629

Email: neil.jones@leics.gov.uk

Appendices

- Appendix 1 - Summary of Internal Audit Service work up to 31 August 2016
- Appendix 2 - High Importance Recommendations