



CORPORATE GOVERNANCE COMMITTEE
26 MAY 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2016-17

Purpose

1. To provide the Corporate Governance Committee (the Committee) with an annual report on work conducted by the Internal Audit Service. It is then intended to distribute the report to all members of the Council.

Background

2. The Chief Financial Officer (CFO) has delegated responsibility for arranging a continuous internal audit. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of Leicestershire County Council Internal Audit Service (LCCIAS). One of its specific functions is to consider the Head of Internal Audit Service's (HoIAS) annual report.

Internal Audit Service Annual Report

3. Part 2, 'Internal Control' of the Accounts and Audit Regulations (2015) provide at section 5 'Internal Audit' 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'.
4. The relevant standards are the United Kingdom Public Sector Internal Audit Standards (PSIAS) revised in April 2016, and the guidance is provided by the accompanying CIPFA Local Government Advisory Note (LGAN).
5. The PSIAS require the HoIAS to provide an annual report to 'the Board' timed to support the annual governance statement. The Internal Audit Charter defines the Corporate Governance Committee as the Board and recognises that it should formally approve the HoIAS' annual report.

6. The annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment;
 - b. a summary of the audit work from which the opinion is derived;
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function;
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP);
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement.

7. The annual report for 2016-17 is provided in **Appendix 1**. Although not a PSIAS requirement, the annual report has traditionally been made available to all members of the County Council. The report includes the HoIAS opinions on the overall adequacy and effectiveness of the Council's control environment (the framework of governance, risk management and internal control). The opinions are also contained in the draft Annual Governance Statement.

8. **Annex 1** provides detail on how the annual internal audit opinion was formed, defines types of audits, the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.

9. **Annex 2** lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). For assurance audits the individual audit opinion and whether there were any high importance recommendations is given. The Annex also contains details of other relevant work undertaken.

10. Headlines from the report are: -
 - a. Reasonable assurance sub-opinions were given for the governance and risk management components of the control environment.
 - b. Whilst recognising there have been some control failings during the year, reasonable assurance was given that core financial and I&T controls remain strong.
 - c. The majority of assurance audits conducted returned substantial assurance ratings. Those where less assurance was given will be subject to further audit scrutiny.
 - d. 81% of jobs were completed by the date of this report, with a relatively small carry over.
 - e. There was a budget underspend.
 - f. Customer satisfaction remained positive.
 - g. LCCIAS continues to abide by the principles of the PSIAS but there is still need for some improvements before full 'conformance' can be claimed.

Resource Implications

11. The Internal Audit Service budget was underspent due to vacancies, maternity leave and some additional income. The underspend has not materially affected coverage.

Equality and Human Rights Implications

12. There are **no specific** equality and human rights implications contained within the annual summary of work undertaken.

Recommendations

13. That the Committee **notes** the Internal Audit Service annual report for 2016-17.

Background Papers

The Constitution of Leicestershire County Council
Accounts and Audit Regulations (Amendment) 2015
The Public Sector Internal Audit Standards (revised from April 2016)
The Internal Audit Plan 2016-17

Circulation under Local Issues Alert Procedure

None

Officer to Contact

Neil Jones, Head of Assurance Services (Head of Internal Audit Service)
Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

List of Appendices

- Appendix 1 - Internal Audit Service Annual Report 2016-17
- Annex 1 - The Head of Internal Audit Service's Annual Opinion on the overall adequacy and effectiveness of the control environment 2016-17
- Annex 2 - Summary of Internal Audit Service work supporting the HoIAS 2016-17 opinion

This page is intentionally left blank