



**CORPORATE GOVERNANCE COMMITTEE**  
**26 MAY 2017**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**INTERNAL AUDIT SERVICE AUDIT PLAN 2017-18**

**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 2017-18 and internal audit resource allocated both to other assurance functions and in providing service to 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 2017-18. Internal audit is an essential component of the Council's corporate governance and assurance framework.

**Construction of the 2017-18 Plan**

3. The Public Sector Internal Audit Standards (the PSIAS) which were revised from April 2016 require the nominated Head of Internal Audit Service (at the County Council the Head of Assurance Services undertakes this role) 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 Head of Internal Audit Service (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 Head of Assurance Services 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 2017 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 Corporate Management Team and this Committee, ensures the Head of Assurance Services 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 towards higher risks and flexed in accordance with major shifts in the risk environment.
7. The Head of Assurance Services 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 enables 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. A number of counter fraud campaigns are planned which may lead to investigations. In order to assess the Council's vulnerability to Serious and Organised Crime relating to public sector contracts, a self-assessment against a Home Office checklist was undertaken in early 2017 and the findings will be picked up in targeted audits in 2017-18.
8. One approach to managing the risk of financial loss is to insure against events occurring. The Head of Assurance Services oversees the management of the Council's insurance function. This adds to the compendium of knowledge on the Council's overall risk portfolio and can give indication 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 2016-17 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 Cabinet Office and ensuring any data matches are investigated;
    - 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 Director of Finance and the Corporate Governance Committee;
    - f. a contingency remains for any unplanned audit work, including investigations and other unknowns such as staff vacancies arising or job overruns because of unforeseen findings.
  13. The 2017-18 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 revised Strategic Plan and Single Outcomes Framework; 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.
16. Continuing areas of focus in 2017-18 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. Developing the commercial culture and service offers aligned to reputation damage of any poor service delivery
  - e. The impact of major changes in Government policy regarding the provision of all services
  - f. Increasing scrutiny (potential CQC inspections) 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. Resource is utilised in servicing the requirements of 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 areas where assurance has either been requested or otherwise identified is shown in Appendix 1. The Director of Finance will be notified of and approve significant variations.
19. In March 2017, the County Council accepted a request from the Leicester City Mayor to delegate the City Council's internal audit function and TUPE transfer (Transfer of Undertakings (Protection of Employment) regulations) its internal audit staff to be managed by the HoIAS. The two organisations provide a range of similar services and the HoIAS will seek every opportunity to look for synergy i.e. auditing the same risks with the same auditor and capacity to share best practice across both councils.
20. 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.
21. LCCIAS contracts commercially with Leicestershire Fire Authority, academy schools and some Leicestershire district councils.

### **Resource Implications**

22. There will be some impact on productivity during the transition of merging the County Council and transferring Leicester City Council staff groups. Additionally, the HoIAS will need to devote a proportion of his available time servicing Leicester Council's corporate client requirements.
23. There will need to be: -
- a. Robust service agreements covering time due type of service required

- b. Continuing improvements in working practices and the extension of computer assisted audit techniques to further improve auditors' efficiency
- c. Co-ordination of the four County Council (sub) functions to optimise the overall assurance that can be given

### **Equality and Human Rights Implications**

24. There are no discernible equality and human rights implications resulting from the audits listed.

### **Recommendation**

25. That the Committee notes the Internal Audit Plan for 2017-18.

### **Background Papers**

The Constitution of Leicestershire County Council

### **Circulation under the Sensitive Issues Procedure**

None.

### **Officers to Contact**

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### **Appendices**

Appendix 1 – Leicestershire County Council Summary internal audit plan 2017-18 *to follow*.