



CORPORATE GOVERNANCE COMMITTEE
29 JANUARY 2018

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 2017-18;
 - b. report on progress with implementing high importance recommendations;
 - c. explain the requirement for an external assessment of the Internal Audit Service and ask the Committee to support the preferred approach.

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 2017-18

4. This report covers the position with 2017-18 work as at 12 January 2017. The outcome of audits completed since the last progress 'cut off' (6 November 2017) reported to the Committee on 17 November is shown in **Appendix 1**. Changes to the Council's committee cycle to accommodate an earlier closure and reporting of the financial accounts, has meant today's meeting is some three weeks earlier than historically and consequently the period since the last progress report is shorter. This (along with the holiday break) reflects in less

audits being finalised. Nevertheless, a considerable amount of work is in train and is close to being reported, but Members will not receive that information until the 27 April committee.

5. For assurance audits (page 1 of Appendix 1) 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. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation, which would be reported to this Committee and a follow up audit would ensue to confirm action had been implemented. Occasionally, the auditor might report a number of recommendations that individually are not graded high importance but collectively would require a targeted follow up to ensure improvements have been made.
6. LCCIAS also undertakes consulting/advisory type audits (page 2 of Appendix 1). Where these incur a reasonable amount of resource they are also included. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes and policies.
7. Page 2 records where LCCIAS either undertakes or assists with unplanned investigations. These are not reported until the final outcome is known.
8. Finally, side 3 of Appendix 1 contains a table for 'Other control environment/assurance work', which gives a flavour of where internal auditors are utilised to challenge and improve governance, risk management and internal control processes which ultimately strengthens the overall control environment.

Progress with implementing high importance recommendations

9. 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 update 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.
10. To summarise movements within Appendix 2: -
 - a. **New** - A&C - Area office safes – plan in place. Follow up in April
 - b. A&C - Direct Payments Cards - Progressing new agreements. Further audit work almost complete.
 - c. E&T - SEN transport risk assessments. Current position is significantly improved. However, kept open pending additional risk.

External Quality Assessment of LCCIAS

11. Internal audit in the public sector is governed by the Public Sector Internal Audit Standards (PSIAS) which were significantly updated from April 2017. Conformance to the standards is mandatory for all principal local authorities.
12. The PSIAS aim to promote continued improvement in the professionalism, quality and effectiveness of the internal audit function and a key element of this is that as part of the internal audit quality management programme, each internal audit function should be subjected to an external assessment of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation. A review of Leicestershire County Council's Internal Audit Service (LCCIAS) is due to be carried out by the end of March 2018.
13. The assessment should: -
 - a. Identify what LCCIAS is doing well or where improvement is required;
 - b. Support continuous improvement;
 - c. Emphasise and enhance the standing of the internal audit function;
 - d. Report findings and recommendations to key stakeholders including audit committees of LCCIAS' other clients.
14. External assessments may be accomplished through either a full external assessment, or a self-assessment with independent external validation. The Head of Assurance Services (Head of Internal Audit Service) has discussed the merits of each option with the Director of Finance. LCCIAS has only recently (end of November) completed the project to accept the delegation of Leicester City Council's internal audit function for three years. It was always considered prudent to await the conclusion of the merger before having an external assessment. There now follows a very busy period to integrate all staff into one single team, and in order to make LCCIAS fit for the future, there will need to be reviews and decisions made on the most effective and efficient operating structure, audit processes and the best case management system. The assessment will also occur during the annual planning process. Given this period of change and significant pressures on LCCIAS, combined with knowledge from peer Heads of Internal Audit from other counties of the quite prohibitive costs of a full External Quality Assessment from a professional body (recognised as achieving the highest level of quality assurance), the preference is for LCCIAS to opt for the second option i.e. self-assessment with independent validation being carried out through peer review.
15. Any organisation conducting a peer review still has to meet rigorous PSIAS requirements to demonstrate competence in the professional practice of internal auditing and the external assessment process. The Standards are clear that competence can be demonstrated through experience gained in organisations of similar size, complexity, sector or industry and technical issues, and that type of experience is valuable. An independent assessor or assessment team means not having either an actual or a perceived conflict of

interest and not being a part of, or under the control of, the organisation to which the internal audit activity being assessed belongs.

16. The Head of Assurance Services (Head of Internal Audit Service) has approached a large local authority shared internal audit service trading company (the Company), and they have confirmed they would be able to undertake a peer review before the end of March thereby satisfying PSIAS requirements. The Company has conducted peer reviews of other internal audit functions and, in its own assessment completed in May 2014 (by a well-respected local authority based internal audit organisation), was judged to 'Generally Conform to the Standards and Code of Ethics'. This is the top rating and means that the Company has an internal charter, policies, and processes that are judged to be in conformance with the Standards.
17. The peer review would be undertaken by the Company's Head of Internal Audit and his deputy, both very experienced internal auditors. The process would involve LCCIAS completing a self-assessment checklist and sending that along with sufficient evidence to support assertions to the Company for review. Thereafter, the reviewers would travel to Leicestershire County Council (and potentially other clients that LCCIAS provides service to) and conduct interviews with key stakeholders (audit committee Chairs and members, senior managers, internal audit staff, external auditors etc.) and review a sample of internal audit files and documents. They would feedback internally to the Director of Finance (acting as the review sponsor) and provide a report for him to present to Corporate Governance Committee on 27 April, and which can then be used for each of LCCIAS' clients.
18. The Company estimate 10 days to complete the work (including 2 to 3 days on site) which is comparable to other reviews. However, this is reliant upon LCCIAS sending them the completed self-assessment and supporting evidence beforehand, which should not be problematic. They have quoted £3,500 to include all travel, accommodation expenses. The cost is well within budget and satisfies Leicestershire County Council Contract Procedure Rule 11 'Minimum Requirements for Procurement' whereby any contract up to £5,000 requires a minimum of one oral or written quotation.

Resources Implications

19. The quotation of £3,500 to conduct a peer review is both within budget and satisfies procurement rules.

Equality and Human Rights Implications

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

Recommendations

21. That: -
- a. the contents of the routine update report be noted;
 - b. the Committee supports the preferred approach to receiving an external quality assessment of the Service.

Background Papers

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 26 May 2017 - Internal Audit Plan for 2017-18

Circulation under the Local Issues Alert Procedure

None.

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Appendices

- Appendix 1 - Summary of Internal Audit Service work undertaken between 7 November 2017 and 12 January 2018
- Appendix 2 - High Importance Recommendations

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