



## **CORPORATE GOVERNANCE COMMITTEE - 25 JULY 2018**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **INTERNAL AUDIT SERVICE AUDIT PLAN 2018-19**

##### **Purpose of Report**

1. The purpose of this report is to provide members with information about the County Council's outline Internal Audit Plan for 2018-19 and internal audit resources allocated both to other assurance functions and in providing services 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 2018-19. Internal audit is an essential component of the Council's corporate governance and assurance framework.

##### **Construction of the 2018-19 Plan**

3. The Public Sector Internal Audit Standards (the PSIAS) which were revised from April 2017 require the Head of Internal Audit Service 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 HoIAS has responsibility for the development of, monitoring and reporting on the Council's corporate risk management framework. In order to conform to PSIAS 1130, this potential impairment to independence and objectivity is included within the Internal Audit Charter along with controls that would need to be applied if an internal audit of the framework was undertaken.
6. The Council's Risk Management Policy and Strategy has been recently reviewed and revised. This was considered by this Committee at its meeting of 29 January 2018 before being approved by the Cabinet on 9 February. Whilst a detailed review of the Council's risk management maturity level was not undertaken at the time, based, by and large, on the knowledge that a robust framework exists within the Council, it was reported that the maturity level remained at Level 3/4 – between 'Working' and 'Embedded & Working'. An independent review of the framework, processes and maturity is scheduled for the later this summer. Details of this are set out in the Risk Management Update report elsewhere on the agenda.
7. 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 Chief Officers and this Committee, ensures the HoIAS is kept up to date with the risk environment. This increases the HoIAS' 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 consequently for internal audit resources to be better targeted towards higher risks and flexed in accordance with major shifts in the risk environment.
8. The HoIAS is also responsible for developing and promoting the Council's approach to countering the risk of fraud and corruption. A significant amount of work continues including reviews, revisions and developments of a suite of anti-fraud and corruption policies, procedures, guidance and tools, 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 biennially which facilitates targeted counter fraud audits and related activity. Counter fraud campaigns are planned which may lead to investigations. The Council's vulnerability to Serious and Organised Crime remains a priority and some targeted audits are planned in 2018-19.
9. The HoIAS also 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 an indication of where internal audit assurance may be needed e.g. to reduce the possibility of claims occurring.
10. 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 the County Council's Internal Audit Service

(LCCIAS) to place reliance upon those other sources. The HoIAS is responsible for compiling both the Local Code of Corporate Governance and the Annual Governance Statement (AGS). These processes include receiving and reviewing departments' annual self-assessments of their governance and assurance arrangements. 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 the outcome/overall opinion. Compiling the 2017-18 AGS has revealed some good information on other forms of assurance obtained across the organisation.

11. 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 internal audits each year on the key financial systems which the Council's External Auditor has the opportunity to use in its judgement of risk when planning the annual audit of the financial accounts (the scope of work will be discussed with the Council's incoming External Auditors, Grant Thornton);
  - b. co-ordinating requests for information to support the National Fraud Initiative (NFI) for the Cabinet Office and ensuring any data matches are investigated (the next cycle of NFI is planned to start in October 2018);
  - 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 Corporate Resources 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 2018-19 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 Corporate Resources 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 2018-19 Plan**

15. Risks contained within Corporate and Departmental Risk Registers remain key documents to explaining the Authority's current and future objectives and priorities and what are the key risks to achieving them.
16. Areas of focus in 2018-19 include:
  - a. The continuing impact of significant financial challenges and reductions in net expenditure; risk of failing to achieve savings; the potential impact of suppliers and partners' failing financial resilience;
  - b. The need for fundamental transformation of service delivery both front line and support services, enabling working more efficiently and effectively;
  - c. The planning, transition and implementation of the Council's financial, payroll and HR system – see below;
  - d. Developing the commercial culture and service offers aligned to reputation damage of any poor service delivery;
  - e. Preparation for the impact of major changes caused by Brexit;
  - f. Response to demographic changes which are increasing the demand for social care support and the costs of protecting vulnerable people;
  - g. The risks behind failure to further integrate health and social care services;
  - h. Dependency on information technology to support both transformational change and embedded processes;
  - i. The risks of failure to successfully implement systems changes;
  - j. Requirements to secure information and data amongst a range of partners and users;
  - k. Countering the risk of fraud and corruption
17. The Council has embarked on a major programme to change its financial, payroll and HR system under the banner 'Fit for the Future'. The programme is being run in conjunction with Nottingham City Council which is the Council's strategic delivery partner for those services operating under the East Midlands Shared Services (EMSS) joint committee arrangements. The programme will cover business processes at all three organisations and risks from changing the control environments are significant. The Director of Corporate Resources has asked the HoIAS to devise a joint internal audit plan for the programme with his

counterpart at Nottingham City Council to cover programme assurance, the impacts on each Council's business systems and interfaces and those within EMSS. An initial meeting has already taken place with both internal audit teams meeting the programme manager for an overview. A more detailed meeting is planned for early August, whereupon a joint plan with resource requirements will be delivered to the EMSS Board, and then to the respective Committees for those charged with governance. The scale of the change is likely to result in commissioning some external resource.

18. 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.
19. A summary plan of areas where assurance has either been requested or otherwise identified is shown in the Appendix attached to this report. Where appropriate, links to the Corporate Risk Register are shown. The Director of Corporate Resources will be notified of and approve significant variations.
20. Internal Audit Plans for organisations for which Leicestershire County Council is the accountable body, (i.e. Eastern Shires Purchasing Organisation (ESPO), Leicestershire Local Pension Board and the Bradgate Park Trust), or a strategic delivery partner (i.e. East Midlands Shared Services), are presented to their respective governance forums.
21. LCCIAS provides the internal audit function for Leicester City Council, Leicestershire Combined Fire Authority, some academy schools and provides some assurance for Derbyshire and Nottinghamshire fire services on fire-service pensions, which are administered by the Leicestershire County Council Pension Service.

### **Resource Implications**

22. The Service received the delegation of Leicester City Council's internal audit function in November 2017. Four staff TUPE transferred into the County Council's Internal Audit Service. The City Council pays a set amount for the provision of this service. The LCCIAS currently has vacancies and needs to replenish its resources in order to continue to provide an adequate level of audit. Over the remaining summer months, the HoIAS is due to undertake a structure and process review to enable LCCIAS itself to be 'fit for the future', which will provide more detail about resource requirements including whether there is a need to run with a fully employed establishment or retain a 'bank' of call on employees when demand is high. A review of working patterns will also be part of the scope of this exercise.

23. Until then there has been some progress on short to medium term resource arrangements including:
- a. A finance and accounting under-graduate placement will start in the LCCIAS on 23 July;
  - b. Adverts were placed on 12 July to recruit three CIPFA trainees one of which is to be placed in the LCCIAS for the long(er) term with short duration rotations to other functions;
  - c. Leicester City Council has a bank of CIPFA trainees that will be seconded to the LCCIAS, but this might not be until the end of the financial year;
  - d. The Corporate Resources Department is exploring employing apprentices and the HoIAS has registered interest. The Institute of Internal Auditors is still developing its apprenticeship scheme, but there are other schemes that might be satisfactory;
  - e. Temporary arrangements with external organisations to provide specialist internal audit support has already been explored.
24. There will need to be:
- a. An acceptance that any trainees will require training and guidance from other staff that will impact productivity and progress;
  - b. Additionally, the HoIAS' time (and to an extent other staff) will be impacted by the structure and process review. Continuing improvements in working practices and the extension of computer assisted audit techniques to further improve auditors' efficiency;
  - c. Continuing co-ordination of the four County Council (sub) functions to optimise the overall assurance that can be given.
25. Should the additional resource occur as planned, the HoIAS plans to deliver almost 1,500 audit days (inclusive of contingency and servicing the client) and over and above other time allocated for risk management, counter fraud, annual governance statement and insurance.

### **Equal Opportunities Implications**

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

### **Recommendation**

27. That the Committee notes the Internal Audit Plan for 2018-19.

### **Background Papers**

The Constitution of Leicestershire County Council

**Circulation under the Sensitive Issues Procedure**

None.

**Officers to Contact**

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**Appendix**

Leicestershire County Council's Summary Internal Audit Plan 2018-19

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