

**CORPORATE GOVERNANCE COMMITTEE – 14 JUNE 2013****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****INTERNAL AUDIT SERVICE PROGRESS REPORT****Purpose of the Report**

1. The purpose of this report is to:
  - (a) Give a summary of Leicestershire County Council's Internal Audit Service (LCCIAS) work finalised since the last report to the Committee and highlight audits where high importance recommendations have been made to managers;
  - (b) Provide an update on progress against the Head of Internal Audit Service report on Members' allowances and expenses whistleblowing complaints (East Midlands Councils);
  - (c) Provide a brief update on the implementation of the Public Sector Internal Audit Standards;
  - (d) Provide a brief summary of LCCIAS performance during 2012-13

**Background**

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, which is provided by Leicestershire County Council Internal Audit Service (LCCIAS). To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan. The Committee is also tasked with monitoring the implementation of internal audit high importance recommendations by managers.
3. Most planned audits undertaken (including those at maintained schools and locality sites) are 'assurance' type, which requires an objective examination of evidence to form an independent opinion on whether risk is being mitigated. Other planned audits are 'consulting' types i.e. primarily advisory and guidance to management, intended to add value e.g. commentary on the effectiveness of controls designed before a new system is implemented. Also, unplanned 'investigation type' audits may be undertaken.

### **Summary of Progress**

4. The report covers audits finalised between 1 January and 31 March 2013
5. The overall opinions reached on schools' financial management arrangements are summarised in the table below. The individual opinions are found on the LCCIAS web page. The web link is:-  
[http://www.leics.gov.uk/audit\\_schools\\_colleges.htm](http://www.leics.gov.uk/audit_schools_colleges.htm)

Opinions are given in relation to attaining a pre-set standard based on the Service's 'MOT' system (explained in detail on the web page).

<b>Opinion given</b>	<b>Number</b>
Far exceeds	0
Well above	2
Above	1
Reaches	0
Generally reaches, however....	0
Below	0
<b>Total</b>	<b>3</b>

6. The outcome of all other audits completed since the last progress report to the Committee is shown in **Appendix 1**. For assurance audits, the 'opinion' is what level of assurance can be given that material risks are being managed. There are four classifications of assurance: full; substantial; partial; and little. A report that has a high importance recommendation would not normally get a classification above partial.
7. **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 in 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.
8. No new HI recommendations were added, two have been closed and two others 'extended' to allow further development and testing. Three HI recommendations relating to the administration of Developer's Contributions (s106) remain outstanding. However, a Project Team has been reformed to oversee implementing a replacement ICT system that should make the processes more robust and co-ordinated. Rather than continue to use audit resource chasing closure of the original recommendations, it is prudent to allocate resource in the new Plan whilst not losing sight of the original issues. These will be recorded in Appendix 2 as 'on hold'.

**Progress against the Internal Audit Service report on Members' allowances and expenses whistleblowing complaints (East Midlands Councils)**

9. Members were informed at the meeting on 26 November 2012 that an exercise had been undertaken to calculate the total chauffeur and vehicle costs incurred by the County Council when Mr Parsons was transported in the official vehicle to and from UK departure points (airports and rail stations) when he attended Committee of the Regions meetings. The total value had been calculated as £4089.84 and Mr Parsons had been invoiced for that amount on 4 October 2012. In accordance with the County Council's normal debt recovery policy, three reminder letters had been sent and the final letter informed him that the County Council would look to commence legal proceedings if payment was not forthcoming by 29 November 2012, or Mr Parsons had not contacted the Director to discuss arrangements for payment.
10. On 13 February 2013, the Committee was informed that Mr Parsons had instructed Solicitors who sought to resist the claim on various grounds. Nevertheless, the County Council responded that it had a valid claim against Mr Parsons. Detailed correspondence had passed between the parties since October 2012 which had helped to narrow the matters in issue. The County Solicitor was of the view that the claim against Mr Parsons would succeed for the majority of the invoiced amount but negotiations were continuing and it was reasonable to expect that an agreed outcome might be reached. The Committee was concerned to see this matter resolved and brought to an end as soon as possible and asked to be kept informed of progress being made on the matter.
11. Agreement was reached by the County Solicitor, following consultation with the Chairman and Spokesmen of the Corporate Governance Committee, with the solicitors representing Mr Parsons for payment of a sum of £3,100 to be made in instalments over a six month period. To date, three instalments totalling £1,600 have been received.
12. In accordance with the Committee's resolution further reports will be submitted as necessary until all matters referred to have been concluded to the satisfaction of the HoIAS and the Director of Corporate Resources.

**LCCIAS progress in implementing the Public Sector Internal Audit Standards (PSIAS)**

13. At the 18 February 2013 meeting, in his report on the 'Annual Review of the Effectiveness of the System of Internal Audit', the HoIAS gave further brief details on the development of Public Sector Internal Audit Standards (PSIAS) which were brought into force on 1 April 2013. However, because of the PSIAS complexity and scope he was awaiting specific guidance on adoption and implementation by LCCIAS in a 'Local Government Application Note'.

14. The guidance was delayed until mid-April and so it has not been possible to fully identify, evaluate and plan for the adoption and implementation of the PSIAS. Once the evaluation is complete and implementation planned, a further report will be brought to the Committee.

### **2012-13 Performance**

15. The Service's key performance measure is based on the amount of the Internal Audit Plan not achieved during the year. The target is for the figure to be less than 10% of the total original planned jobs time. For the County Council and Pension Fund internal audit work, the figure for 2012-13 was not achieved and was almost 19%. This unusual 'deficit' was due to a combination of auditor days 'lost' because of a reduction in one full time member of staff following the service review, one long term vacancy, one long term absence and the unforeseen total impact of the service review on all staff. The days lost have not severely impacted the HoIAS capacity to provide an opinion on the overall adequacy and effectiveness of the Authority's internal control environment.
16. Another important measure is that the number of audits completed is at least 90% of those planned. Once again this was not achieved at 85% for the reasons specified in 15 above.
17. The timeliness of reporting issues is measured by calculating the time between concluding an audit to the issue of a draft report. The targets are that 95% of school audit reports are issued within three weeks of the conclusion of the visit and that for other audits 90% have a draft report issued within three months of the agreed field work start date for the audit. Both of these targets were achieved.
18. One method used to assess the quality of audits is through questionnaires issued to clients with their final report. The return rate this year was only 48% less than 2011-12 and just below the target of 50%, perhaps indicating other priorities for respondents. However, only one client returned an 'unsatisfactory' rating and 45% of those returned rated the service with a maximum score.
19. Due to the vacancies and additional external income received, the Service under spent by almost 12% on its net budget. Further efficiencies and increasing income levels remain within the strategy for the Service's budget requirements and important experience continues to be gained by taking on new external clients.
20. The Service's primary role is to provide assurance and make recommendations for control improvements. However, it has been able to contribute to income maximisation and also the wider savings agenda of the County Council. In addition there have been reduced costs to the County Council through joint work with PwC.

**Resource Implications**

21. Work on the service review project, a small reduction in establishment, a long term vacancy and long period of sickness absence and the impact of several unplanned high level and sensitive audits affected overall resources available. Nevertheless, there was sufficient resource committed across all organisations to allow the HoIAS to form rounded opinions on the internal control environments.

**Equal Opportunities Implications**

22. There are no discernible equal opportunities implications resulting from the audits listed.
23. The service review Human Resources Action Plan incorporated an equality impact assessment. There were no discernible issues.

**Recommendation**

24. That the contents of the report be noted.

**Background Papers**

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 15 May 2012 and 29 June 2012 - Internal Audit Plan for 2012-13

Report to the Corporate Governance Committee on 9 February 2011 – ‘Risk Management Update’

Report to the Corporate Governance Committee on 6 February 2012 – Internal Audit Service Progress Report

Report to the Corporate Governance Committee on 15 May and 29 June 2012 - ‘Members’ allowances and expenses whistle blowing complaints (East Midlands Councils)

Report to the Corporate Governance Committee on 26 November 2012 – Annual Review of the Effectiveness of the System of Internal Audit

**Circulation under the Local Issues Alert Procedure**

None.

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**Appendices**

- Appendix 1 - Summary of Final Internal Audit Reports issued during the period 1 November to 31 December 2012
- Appendix 2 - High Importance Recommendations