



CORPORATE GOVERNANCE COMMITTEE
12 MAY 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE AUDIT PLAN 2014-15

Purpose of the Report

1. The purpose of this report is to provide members with information about the contents of the Internal Audit Service Audit Plan 2014-15 for the County Council and audit resource allocated 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. One of its specific functions is to consider the annual audit plan, which is the prime document for giving details of where Leicestershire County Council Internal Audit Service (LCCIAS) will concentrate its efforts in 2014-15. Internal audit is an essential component of the Council's corporate governance and assurance framework

Construction of the 2014-15 Plan

3. The Public Sector Internal Audit Standards (the PSIAS) require the Head of Internal Audit Service (HoIAS) 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 risk-based plan must take into account the requirement for the HoIAS to produce an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment, i.e. the governance, risk management and control frameworks. The scope of internal audit activity should be wide ranging.
4. The PSIAS advise that 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. During 2013-14, LCCIAS conducted specific detailed audits of the Council's risk management framework and governance arrangements and also a range of departmental and operational risk management audits.

The outcomes provided evidence to the HoIAS that the Authority's approach to risk management continues to improve and embed, especially around consistency in scoring risks and escalating them into the strategic and governance domain.

5. The PSIAS also require that the risk-based plan should explain the HoIAS' approach to using other sources of assurance when forming his annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment, and any work required by LCCIAS to place reliance upon those other sources. To meet this requirement, for the first time when they were compiling their departments' annual assurance statements for 2013-14, Directors were specifically asked to identify where other assurance is obtained. Results have been encouraging and this should enable the HoIAS to plan and coordinate internal audit activity with other providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts. There will be some audit work planned around illustrating in more detail the full extent of the Authority's assurance framework.
6. The increasing confidence in the Authority's approach to identifying, evaluating and managing risk allows for more reliance to be placed on management's risk assessments rather than historic audit needs assessment models. This has been backed up with consultation with senior management and Chief Financial Officer (i.e. the Assistant Director of Corporate Resources (Strategic Finance and Property)). 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 PwC (the Council's external auditors) places reliance on to enable it to reach an opinion that there is no material misstatement in the financial accounts;
 - b. co-ordinating requests for information to support the National Fraud Initiative (NFI) for the Audit Commission;
 - c. certifications of returns for government departments and funding bodies;
 - 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 Chief Financial Officer (CFO) and the Corporate Governance Committee;
 - f. a contingency remains for any unplanned special investigations, including suspected frauds and other unknowns such as staff vacancies arising or job overruns because of unforeseen findings.

7. The 2014-15 Plan aims to give the optimum audit coverage within the resources currently available. Though it is compiled and presented as a plan of work, it must be recognised that the Plan can only be a statement of intent and there has to be flexibility to review and adjust the Plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls. The HoIAS will discuss and agree material changes with the Chief Financial Officer (i.e. the Assistant Director of Corporate Resources (Strategic Finance and Property)).

Themes emerging in the 2014-15 Plan

8. The Corporate and Departmental Risk Registers, the Council's Strategic Plan and Transformation Programme are all key documents to explaining the Authority's current and future objectives and priorities and what are the key risks to achieving them. A large proportion of the 2014-15 Plan will be based on them and especially around the key themes of:
 - a. The increasing impact of significant financial challenges and reductions in net expenditure resulting in failure to achieve targeted 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. The impact of major changes in Government policy regarding the provision of health and social care services and children's services;
 - e. Failing to plan for demographic changes which are increasing the demand for social care support;
 - f. The risks behind failure to integrate health and social care services;
 - g. Growing dependencies on information technology to support both transformational change and embedded (business as usual) processes;
 - h. Requirements to secure information and data amongst a range of partners and users;
 - i. The requirement to embrace and continuously improve good governance;
 - j. The impacts on staffing resources, including the need for learning and development, support and good management.
9. A summary Plan for 2014-15 is shown at Appendix 1. Large scale County Council 'strategic' plans and programmes contain many individual projects and it is too early to identify priorities within them so they are shown as 'bulk' allocations and specific individual audits will be determined quarterly by consultation throughout the year.

10. Detailed Terms of Engagement covering each audit's scope and any exclusions will be agreed with the relevant risk owners in advance of the 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.
11. The Plan contains allocation for servicing 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.
12. Internal Audit Plans for those organisations for which Leicestershire County Council is the accountable body i.e. Eastern Shires Purchasing Organisation (ESPO), Leicestershire County Council Pension Fund and Bradgate Park Trust, will be presented to their respective governance forums.
13. LCCIAS also contracts commercially with the Fire Authority, academy schools and some Leicestershire district councils.

Resource Implications

14. The Service's budget has been reduced for 2014-15. The HoIAS has translated this into a reduction in audit days for the County Council of 200 days down to 1500 audit days. Nevertheless, improvements in working practices and the extension of computer assisted audit techniques will improve auditors' efficiency and the HoIAS is satisfied there is sufficient resource to be able to provide a rounded opinion on the control environment. The Chief Financial Officer has agreed that the 200 days will be re-allocated to 'traded services' so as to generate additional income in order to sustain a robust pool of resource.

Equal Opportunities Implications

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

Recommendation

16. That the Committee notes the Internal Audit Plan for 2013-14.

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 2014-
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