

CORPORATE GOVERNANCE COMMITTEE
23 SEPTEMBER 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE – ANNUAL REPORT 2013-14

Purpose of Report

1. The purpose of this report is to provide the Committee with an annual report on work conducted by the Internal Audit Service. It is then intended to distribute the report to all members of the Council.

Background

2. The Chief Financial Officer (CFO) has delegated responsibility for arranging a continuous internal audit. Under the County Council's Constitution, this Committee is required to monitor the adequacy and effectiveness of the Internal Audit Service. One of its specific functions is to consider the Head of Internal Audit Service's (HoIAS) annual report and opinion on the "internal control environment" of the Authority.

Internal Audit Service Annual Report

3. The Public Sector Internal Audit Standards (PSIAS – the Standards) were introduced from 1st April 2013. A public sector requirement within the PSIAS is that the HoIAS must provide an annual report timed to support the annual governance statement. The report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the Authority's governance, risk and control framework (i.e. the control environment);
 - b. a summary of the audit work from which the opinion is derived;
 - c. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP).
4. Relative to the above, the annual report should also:
 - a. disclose any qualifications to the opinion, together with the reasons for the qualification;
 - b. include any issues judged to be relevant to the preparation of the annual governance statement.

5. The annual report for 2013-14 is provided in **Appendix A**. Although not a PSIAS requirement, the annual report has traditionally been made available to all members of the County Council. The report includes the HoIAS opinion on the overall adequacy and effectiveness of the Authority's control environment. The PSIAS definition of the control environment is included at **Appendix B**. A list of the audit work undertaken during 2013-14 from which the HoIAS opinion is derived is included at **Appendix C**.

Summary HoIAS opinion on the overall adequacy and effectiveness of the Authority's control environment

6. The HoIAS' Annual Report identifies an issue relating to a payment system that occurred during 2013-14. However, the HoIAS is satisfied that good governance and transparency was promptly displayed by management and the risks of re-occurrence were mitigated.
7. The HoIAS has reported a minor increase in the number of High Importance recommendations in key system developments and an increase in requesting extensions to implementation dates which might indicate increasing pressures and strains. Nevertheless, he is currently satisfied that senior management and members pay rigorous attention to implementing HI recommendations.
8. Accepting the above, based on the evidence of audits completed, other relevant work undertaken (Appendix C) and the HoIAS observations of governance and risk management processes, on the whole, reasonable assurance can be given that the Council's control environment is sound and that governance, risk and control frameworks are adequate and effective

Disclosure of non-conformance with the PSIAS (the Standards)

9. The HoIAS recently undertook a self-assessment and evaluation of the internal audit activity and the results (including areas for improvement) have been shared with the Chief Financial Officer (CFO). The exercise revealed that on the whole the PSIAS 'Performance' Standards are being met. However, the PSIAS 'Attribute' Standards require two formal documents to be in place:
 - a. an internal audit Charter which mandates the purpose, authority and responsibility of the County Council's internal audit activity;
 - b. a Quality Assurance and Improvement Programme (QAIP) which formalises the evaluation of the internal audit activity's conformance with the Standards. The QAIP also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
10. Whilst the County Council's IAS has a 'Statement of Aims and Objectives' and 'Audit Strategy' (both last updated and reported to this Committee in November 2010), and conducts its work in line with that required within a QAIP, this does not satisfy all of the requirements of the 2013 Standards.

11. PSIAS states that the internal audit activity can report that it '*Conforms with the International Standards for the Professional Practice of Internal Auditing*' only if the results of the quality assurance and improvement programme (QAIP) support this statement. Given a formal QAIP does not yet exist, the HoIAS is currently reporting 'non-conformance with the PSIAS', but that 'the County Council's IAS is abiding by the principles of the PSIAS'.
12. The disclosure of 'non-conformance' is not considered a significant deviation from the PSIAS. Nevertheless, for transparency, the HoIAS has reported the non-conformance as an area for improvement in the Annual Governance Statement.
13. The CFO has tasked the HoIAS to develop and implement both a Charter and QAIP by the end of December.

Resource Implications

14. The Section's expenditure is contained within the Corporate Resources Department's agreed budget.

Equal Opportunities Implications

15. There are no specific equal opportunities implications contained within the annual summary of work undertaken.

Recommendations

16. That the Committee
 - (a) notes the Internal Audit Service annual report for 2013-14;
 - (b) notes the disclosure of non-conformance and amendments to the Annual Governance Statement for 2013-14.

Background Papers

The Constitution of Leicestershire County Council
Accounts and Audit Regulations (Amendment) 2011
The Public Sector Internal Audit Standards 2013
Report on the Effectiveness of the System of Internal Audit - Corporate Governance Committee 26 November 2010

Circulation under Sensitive Issues Procedure

None

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List of Appendices

- Appendix A - Internal Audit Service Annual Report 2013-14
- Appendix B - PSIAS definition of The Control Environment
- Appendix C - Internal Audit Service work during 2013-14