

**CORPORATE GOVERNANCE COMMITTEE****23 SEPTEMBER 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****INTERNAL AUDIT SERVICE PROGRESS REPORT****Purpose of 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 report where high importance recommendations have been made;
  - (b) Provide an update to the report presented to the Committee on 12 May 2014 by the Head of Internal Audit at Nottingham City Council on East Midlands Shared Service Outturn 2013-14;
  - (c) Provide an update on the County Solicitor's report on the investigation into allegations concerning the conduct of the former Leader of the County Council, Mr David Parsons, regarding his use of County Council resources and action to be taken to recover costs incurred;
  - (d) Provide an update on the adoption of the Public Sector Internal Audit Standards (PSIAS).

**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 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 high importance recommendations.
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 allow for guidance to be provided to management. These are intended to 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 2014-15**

4. This report covers audits finalised during the period 1 April to 31 August 2014.
5. Four maintained schools were audited in the period. Two received opinions of '*...well above the standard that we measure against*' and the other two received opinions of '*...reaches the standard that we measure against. However, improvements are needed in some areas*'. The individual opinions are found on the LCCIAS web page at [http://www.leics.gov.uk/audit\\_schools\\_colleges.htm](http://www.leics.gov.uk/audit_schools_colleges.htm)
6. The outcome of all other audits completed since the last progress report to the Committee is shown in **Appendix A**. 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 B** 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 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.
8. To summarise movements within Appendix B: -
  - a. One new HI recommendation (Children and Family Services (C&F) decommission previous electronic case management system records) has been added;
  - b. Four HI recommendations have been closed (C&F Operational risk management, Corporate Resources (CR) Disaster Recovery; CR Capital Maintenance Programme; CR Partnership Risk);
  - c. Implementation dates for four HI recommendations were further 'extended' to allow for stabilisation or progression of arrangements (CR 'M-Star' (2), Pension Fund Contribution Banding (1) and CR Employee Annual Leave Recording (1)).

### **Update on the East Midlands Shared Service Outturn 2013-14**

9. At the previous meeting of the Committee held on 12 May, the Head of Internal Audit at Nottingham City Council (NCC) reported that system audits and testing had taken longer for the first full year of operation of the East Midland Shared Service (EMSS) and some areas were still therefore highlighted in its Outturn report for 2013/14 as being 'in progress'. This related to audits of three key financial systems (payroll, accounts payable and accounts receivable) operated by EMSS on behalf of its two partners (Nottingham City Council and Leicestershire County Council).

10. In his annual internal audit opinion to the EMSS Operations Board on 1 September, the Head of Audit at NCC concluded that '*...only a limited level of assurance could be given that EMSS' internal control systems were operating adequately*'. This opinion was reached mainly because of the inability to obtain appropriate data to enable detailed testing. Improvements to obtaining relevant data for next year's audit are already being planned.
11. The External Auditors of each of the partners were reliant on the audits being completed by NCC to assist their respective opinions on each Authority's financial accounts. The Head of Audit at NCC therefore informed Leicestershire County Council's External Auditors, PricewaterhouseCoopers (PWC), of the difficulties experienced regarding these three financial systems.
12. To gain sufficient assurance for PWC's requirements, the County Council's Chief Financial Officer commissioned LCCIAS to undertake specific additional testing (as determined by PWC) on Leicestershire County Council records for each of the three financial systems across the financial year. The findings were on the whole satisfactory and have been accepted by PWC.

**Update on the County Solicitor's report on investigation into allegations concerning a former Member's conduct**

13. At the Committee meeting held on 12 May 2014, members were informed that in relation to the settlement of £2,385.93 agreed with Mr Parsons for his inappropriate use of the official car and chauffeur, there remained a balance outstanding of £1,500. The Committee noted that the instalment due from Mr Parsons on 1 May 2014 had not been received. The County Solicitor confirmed that the usual debt recovery process would be followed to recover the money outstanding.
14. Since the May Committee meeting, Legal Services has had a significant amount of pre action correspondence with Mr Parsons and has informed him of the consequences of not paying what has been agreed with him. Nevertheless, at the time of writing this report, an appropriate response has not been received from Mr Parsons and there is no evidence that any further amounts have been paid. £1,500 therefore remains outstanding and the County Solicitor has instructed Legal Services to issue proceedings.

**Update on the adoption of the Public Sector Internal Audit Standards (PSIAS)**

15. Development of an internal audit Charter and a Quality Assurance and Improvement Programme (QAIP) to meet the key requirements of the Public Sector Internal Audit Standards (PSIAS) is continuing. As this has not yet been finalised and approved, for transparency, the HoIAS has reported this as an area for improvement in the Annual Governance Statement. It is intended that both documents will be completed by the end of the year.

**Resource Implications**

16. None

**Equal Opportunities Implications**

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

**Recommendation**

18. That the contents of the report be noted.

**Background Papers**

The Constitution of Leicestershire County Council

Report to the Corporate Governance Committee on 12 May 2014 - Internal Audit Plan for 2014-15

Report to the Corporate Governance Committee on 12 May 2014 – East Midlands Shared Service Outturn 2013-14

Reports to the Corporate Governance Committee on 15 May and 29 June 2012 – Response to a request for an audit by Mr G.A. Boulter c.c. and reports to the Corporate Governance Committee on 14 June, 23 September and 25 November 2013 and 10 February and 12 May 2014 – Investigation into allegations concerning a former Members' conduct.

**Circulation under the Local Issues Alert Procedure**

None.

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**Appendices**

Appendix A - Summary of Final Internal Audit Reports issued during the period 1 April to 31 August 2014

Appendix B - High Importance Recommendations