



## **CORPORATE GOVERNANCE COMMITTEE - 10 MAY 2019**

### **INTERNAL AUDIT SERVICE AUDIT PLAN 2019-20**

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

### **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 2019-20 and internal audit resource allocated both to other assurance functions and in providing service 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 2019-20. Internal audit is an essential component of the Council's corporate governance and assurance framework.

### **Construction of the 2019-20 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. An independent 'health check' of the Council's risk management maturity was undertaken by a consultant from Risk Management Partners (RMP) in late autumn 2018. His report was overall positive. The consultant considered that the work undertaken by the Council since publication of a previous third-party (independent) review (2012) has further strengthened the Council's position in respect of risk management standards and practices, thus increasing the likelihood of it attaining the higher grading of 'embedded and integrated' (4) if it were to formally benchmark itself utilising the Alarm CIPFA Benchmarking criteria. Nevertheless, the consultant recognised some issues and suggested possible actions to address these. The consultant's report is shared for information with Members under a separate item on the agenda for this meeting. Chief Officers will now consider the actions proposed in detail which will feed in to a review of the Risk Management Strategy over the summer. The risk management Policy Statement was reviewed and revised and received by the Committee at its meeting of 18 January 2019 before being approved by Cabinet and County Council in February 2019.
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 internal audit resource 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 exposure to Serious and Organised Crime remains a priority and further targeted audits are planned in 2019-20.
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 as to where internal audit assurance may be needed e.g. to reduce the possibility of claims occurring.
10. Since September 2017, following the Grenfell Tower fire tragedy, the HoIAS has responsibility for chairing a specific group of service experts set up to evaluate risks to the Council's owned and procured properties and persons that occupy

them. The scope of the group's work has increased such that specific risks relating to design and build, procurement, health and safety and compliance are routinely discussed, which adds to the HoIAS knowledge of risk management.

11. 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 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 what was the outcome/overall opinion. Compiling the 2018-19 AGS has not only revealed some good information on other forms of assurance, but also identified where some planned developments have slipped thereby adding to the potential for internal audit review.
12. Each individual audit engagement requires the auditor to identify any other assurances received. 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.
13. 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 continue to be discussed with the Council's 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 previous cycle of NFI which started in October 2018 continues);
  - 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, other Chief Officers 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.
14. The 2019-20 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.
  15. 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 2019-20 Plan**

16. 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.
17. Areas of focus in 2019-20 include: -
  - a. The continuing impact of significant financial challenges especially around the costs of adults and children's SEND placements.
  - b. Monitoring that new target operating model for adult social care services progresses to deliver enhanced outcomes for service users and improved ways of working.
  - c. Mitigating the significant financial risks faced by the Council in delivering the infrastructure necessary to support growth (including a number of major capital projects) in the County.
  - d. Local arrangements for the Business Rate Retention Pilot for 2019/20.
  - e. The control environments supporting significant treasury and capital asset investments.
  - f. The planning, transition and implementation of the Council's major programme to change its financial, payroll and HR system under the banner 'Fit for the Future'. The HoIAS will revise the 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.
  - g. Developing commercial service offers and ensuring that all income is collected.

- h. Robust arrangements for procurement and contract monitoring including compliance to the Supplier's Code of Conduct.
  - i. Preparation for the impact of major changes caused by Brexit.
  - j. The risks behind failure to further integrate health and social care services under the Government's NHS Long Term Plan.
  - k. Dependency on information technology to support both transformational change and embedded processes.
  - l. The risks of failure to successfully implement systems changes.
  - m. Requirements to secure information and data amongst a range of partners and users so as to be compliant with GDPR.
  - n. Countering the risk of fraud and corruption.
  - o. Implementing any governance changes that might arise following the National Audit Office report on 'Local Authority Governance' and the report of the Committee on Standards in Public Life 'Ethical Standards in Local Government'.
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 Bradgate Park Trust, or a strategic delivery partner (East Midlands Shared Services), are presented to their respective governance forums.
21. LCCIAS also 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 currently has vacancies and needs to replenish its resource in order to continue to provide an adequate level of audit. Over the summer months, the HoIAS is due to complete a structure and process review to enable LCCIAS itself to be 'fit for the future'. This 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 for when demand is high. Review of working patterns will also be part of the scope of this exercise.

23. Pending the above, there has been some progress on improving short to medium term resource arrangements including: -
- a. The commencement of two experienced and highly qualified agency staff in April for a minimum of 12 weeks pending conclusion of the aforementioned review.
  - b. Leicester City Council is seconding a part qualified CIPFA trainee to gain internal audit experience from the beginning of May.
  - c. A finance and accounting under-graduate placement (to replace the incumbent) has been requested, to start from August.
  - d. The two County Council CIPFA trainees will swap where they are placed in September.
24. There will need to be: -
- a. A continuing 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.
  - c. Continuing improvements in working practices and the extension of computer assisted audit techniques to further improve auditors' efficiency. Alternative ways of licensing the Service's data matching facility to enable more users are being explored.
  - d. 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 aims to deliver around 1,100-1,200 audit days (assurance, consulting, counter fraud and investigations), maintain the corporate days but aim to reduce days allocated to risk management, 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 2019-20.

### **Background Papers**

The Constitution of Leicestershire County Council

**Circulation under the Sensitive Issues Procedure**

None.

**Officers to Contact**

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**Appendices**

Appendix – Leicestershire County Council Summary Internal Audit Plan 2019-20

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