

**Status of Report: Public**

**Meeting: Corporate Governance Committee**

**Date: 21 November 2018**

**Subject: Progress against the Internal Audit Plan 2018-19**

**Report by: The Treasurer**

**Author: Neil Jones, Head of Internal Audit Service, Leicestershire County Council**

**For: Information**

## **1. Purpose**

To provide the Corporate Governance Committee (the Committee) with an update of progress against the Internal Audit Plan for 2018/19.

## **2. Recommendations**

The Committee is asked to note the report and to refer any observations to the Combined Fire Authority, Chief Fire Officer (CFO) or Treasurer as they see fit.

## **3. Executive Summary**

- 3.1. One of the functions of the Corporate Governance Committee is to monitor the adequacy and effectiveness of the internal audit function and, specifically, to monitor progress against the internal audit plan through the receipt of periodic progress reports. Background information on the statutory and constitutional requirements and working arrangements is contained in Appendix 2.
- 3.2. The Internal Audit Plan for 2018/19 was approved by the Committee at its meeting on 14 March 2018. Progress against planned work is summarised below and is then reported in more detail in Appendix 1.
- 3.3. The approved plan identified 12 potential auditable areas, which included follow up on the implementation of high importance recommendations, and an allowance for 'client' management (report to committees, planning, advisory etc.). The number of days purchased is 85 days.

Of the 12 potential auditable areas that were approved:

- 2 jobs have been completed to final stage;
- 2 jobs have been completed to draft (or revised draft) report stage;
- 8 are work in progress.

In addition, the Committee has previously been informed that a follow up of the implementation of two high importance recommendations in respect of Key ICT

Controls coverage for 2017/18 was not included in the original plan because the job itself was a final quarter report and the high importance recommendations were not known at that stage. At present it remains anticipated that this additional follow up review can be undertaken within the 85 days procured.

### 3.4 **The Implementation of 2017/18 High Importance Recommendations**

As stated previously, the above work indicated as 'completed to draft' contains two audits from 2017/18 where high importance recommendations were required to be followed up, in respect of:

- Declarations of Interest/Gifts and Hospitality
- Fire-fighter Pensions – Roles and Responsibilities

As agreed at the previous meeting on 12 September, from the testing undertaken and the resultant reporting, the assurance ratings for both of these auditable areas were lifted from partial to substantial assurance i.e. the high importance recommendations have been satisfactorily addressed.

There were a further two reports with partial assurance and therefore high importance recommendation(s) and, whilst testing has been completed, these remain 'work in progress' as the reports are currently being compiled.

- Performance Monitoring – the high importance recommendation has been implemented. Testing will now continue on the other recommendations now the new process is embedded.
- Procurement – Of the five recommendations two have been fully met and three have been partially met, but further progress is needed. The three areas relate to
  - 1) reviewing spend and any associated contracts;
  - 2) ensuring existing contracts are all signed; and
  - 3) publishing an up to date contracts register.

On the whole the direction of travel is for an improved control environment.

Follow up testing on the implementation of the two high importance recommendations in respect of Key ICT Controls coverage for 2017/18 is as follows:

- For efficiency, the recommendation in respect of a change control policy will be followed up as part of the Key ICT Controls coverage for 2018/19.
- The second recommendation, in respect of the procurement and installation of a network access controller (NAC), is not due for implementation until February 2019. Subject to a procurement exemption currently being requested, delivery and implementation of the NAC will meet this timetable. A further update will be given to the Committee in January 2019.

3.5 There is presently no reason why the remaining areas of work defined above should not be completed in order to provide adequate assurance coverage in 2018/19.

#### 4. Background

4.1. The Committee is provided with a summary report of internal audit work undertaken in the period prior to the meeting. Where applicable an individual 'opinion' on each audit assignment is reported i.e. to what extent risk is being managed. The four levels of assurance are: full; substantial; partial and little.

An assurance type audit report containing at least one high importance recommendation (see Appendix 2) would normally be classified as 'partial' assurance. Consulting type audits might also result in high importance recommendations.

4.2 The current position as at 6 November 2018 and any outcomes have been mapped onto the plan agreed on 14 March 2018. This forms **Appendix 1** and is summarised as:

<b><u>Status of work</u></b>	<b><u>Additional Commentary</u></b>
2 to final issued (page 2)	<ul style="list-style-type: none"> <li>• Declaration of Interests/Gifts and Hospitality (19/2)</li> <li>• General Data Protection Regulation - GDPR (19/3)</li> </ul>
2 to draft report (Pages 3-4)	<ul style="list-style-type: none"> <li>• Procurement (19/5)</li> <li>• Fire-fighter Pensions – Roles and Responsibilities (19/11)</li> </ul>
8 areas of work in progress (pages 5-9)	<ul style="list-style-type: none"> <li>• Performance Monitoring (19/1)</li> <li>• HMICFRS Readiness Audit (19/4)</li> <li>• Key financial systems (19/6)</li> <li>• Key Financials Payroll (19/7)</li> <li>• Key Financials Pensions (19/8)</li> <li>• ICT controls 2018-19 (19/9)</li> <li>• National Fraud Initiative (19/10)</li> <li>• Fire-fighter Pensions – Pensions Calculations (19/12)</li> </ul>

4.3 The approved plan was a statement of intent and whilst every effort will be made to deliver it, the Treasurer recognises that it needs to be flexible and be prepared to revise activities in response to changing circumstances or emerging risks. Therefore during the course of the year Leicestershire County Council Internal Audit Service (LCCIAS) will report to the Committee audits that will not be undertaken as part of the 85 day coverage and the rationale for such decisions including where other lines of defence are deemed sufficient. To date, no such jobs have been identified. The final page of Appendix 1 details the potential substitute jobs if any jobs on the agreed plan could not be executed. Obviously it has not been necessary to undertake these substitute jobs to date and so they are only included for completeness.

## **5. Report Implications / Impact**

### **5.1. Legal (including crime and disorder)**

Section 112 of the Local Government Finance Act 1988 requires that the CFA '...shall make arrangements for the proper administration of its financial affairs' and to ensure that '...one of its officers has responsibility for the administration of those affairs'. Within the CFA this officer is the Treasurer and this is reflected in the CFA's Constitution.

The Accounts and Audit Regulations 2015 require under Part 2 'Internal Control' at Regulation 5(1) that, 'A relevant authority (including fire authorities) must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

### **5.2. Financial (including value for money, benefits and efficiencies)**

There are no direct financial implications arising from this report. However, as a result of the work carried out, assurance regarding the operation of key financial systems is gained and there would be an expectation that implementing internal audit recommendations could improve effectiveness, efficiency and economy. - Colin Sharpe, Head of Finance, Leicester City Council, 0116 454 4081

### **5.3. Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)**

Internal audit provides reassurance that effective governance, risk management and internal control procedures are in place. Internal audit reports are used to inform the Treasurer and the Chief Fire and Rescue Officer of the detailed findings of the audit and highlight actions that are required to safeguard the CFA's interests.

### **5.4. Staff, Service Users and Stakeholders (including the Equality Impact Assessment)**

None.

### **5.5. Environmental**

None.

### **5.6. Impact upon Our Plan Objectives**

The provision of a robust internal audit function assists both effective and efficient management and good corporate governance. This should assist with meeting the challenges outlined in the CFA's Finance and Resources and Governance Strategies.

## **6. Background Papers**

Internal Audit Plan 2018-19 (Corporate Governance Committee - 14 March 2018)

<https://bit.ly/2wztX0e>

<https://bit.ly/2wvxuxo>

Internal Audit Charter (Corporate Governance Committee - 15th March 2017)

<https://bit.ly/2wzAPL5>

<https://bit.ly/2wrBZsy>

## **7. Appendices**

Appendix 1 Progress against the Internal Audit Plan 2018/19 as at 6 November 2018

Appendix 2 Background to statutory and constitutional requirements and working arrangements

## **8. Officers to Contact**

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