

## **Agenda Item No. 8**

**TITLE**            **Draft LGSS Internal Audit Plan 2017/18**

**To:**              **LGSS Joint Committee**

**Date:**           **23<sup>rd</sup> March 2017**

**From:**          **Duncan Wilkinson, Chief Internal Auditor**

### **1. PURPOSE**

- 1.1. To present the draft 2017/18 Internal Audit Plan and invite comments from LGSS Joint Committee.

### **2. RECOMMENDATIONS**

- 2.1. That the Joint Committee approves the 2017/18 LGSS Audit Plan as attached at Annex A.
- 2.2. That the Joint Committee notes the 2017/17 LGSS Law Ltd Audit Plan as at Annex B (the plan is approved by the LGSS Law Ltd Board).
- 2.3. That the Joint Committee approves the Internal Audit Charter as at Annex C.

### **3. BACKGROUND**

- 3.1. The role of Internal Audit is defined within statute (Accounts and Audit Regulations) and professional best practice (Public Sector Internal Audit Standards (PSIAS)). The basis for developing Internal Audit plans is set out in the detailed report attached to this paper.
- 3.2. The Internal Audit service is a Shared Service within LGSS operating to deliver the Internal Audit service to LGSS sovereign owners and clients. Since LGSS included Milton Keynes Council the shared service approach has enabled the IA service to:
  - Deliver £100,000pa savings in 2016/17
  - Deliver £75,000pa savings for 2017/18
  - Absorb additional work arising from the significant change agenda throughout its sovereign owners
  - Secure additional work from other clients
- 3.3. A service improvement agenda commenced in 2016/17 has also enabled the IA service to address resourcing shortfalls and the improvement of the skills mix /

competency of the IA teams remains a priority. The IA service also delivers support for Risk assessment / management and a specialism for Fraud investigation.

- 3.4. The shared service model of delivery has also supported improved efficiency in the delivery of individual audit plans but that has been limited by the vacancies within the team. The service maintained 43 FTE equivalents for 2016/17. At times there were up to 10 vacancies across the service. An additional FTE was transferred into LGSS in October as part of the new business from East Cambs District Council.
- 3.5. As at February 2017 the service maintained 2 Vacancies (Trainee and Audit Asst). The Head of Audit (West) retires from 31<sup>st</sup> March creating a 3<sup>rd</sup> vacancy from 1<sup>st</sup> April. Adverts are live currently for these posts.
- 3.6. Restructure proposals are in consultation for the Risk Service and Fraud Service and new business from the Welland consortia is live from 1<sup>st</sup> April resulting in 6 new FTE positions transferring into LGSS.
- 3.7. The service recruited a number of Trainee roles as a solution to the difficulties in attracting senior staff at current salaries. These are an investment and require support in their first 6-12 months before developing to a level of sufficient delivery.

#### **4. CLIENT AUDIT PLANS**

- 4.1. There are many synergies and similarities between our clients and the team will increasingly develop skills, knowledge and experience that are transferable between sites and utilise its size to develop traditional and emerging specialisms, such as IT, contract & project management, fraud, VFM and risk management that smaller internal audit providers are unable to support.
- 4.2. Over the last couple of years, IA has developed a consistent approach to audit planning that is recognised as best practice producing dynamic and focused internal audit plans for all our clients. It has also allowed the savings from reduced audit resources to be absorbed without compromising the LGSS Chief Internal Auditor's ability to give an evidence based opinion in the control environment.
- 4.3. This modern audit approach, championed by LGSS, has been fully endorsed by a recent external PSIAS review and has seen the service successful in retaining existing contracts and attracting new clients, such as the Welland partnership, East Cambridgeshire District Council and Milton Keynes housing fraud work.
- 4.4. Each client audit plan has been developed through the appropriate assessment of risks, past audits, emerging issues etc and consultation with key officers and stakeholders. The Plans have been discussed and endorsed by each Client's Senior Management Team and approved by the relevant Audit Committee. A summary of the days planned for each client 2017/18 is shown below:

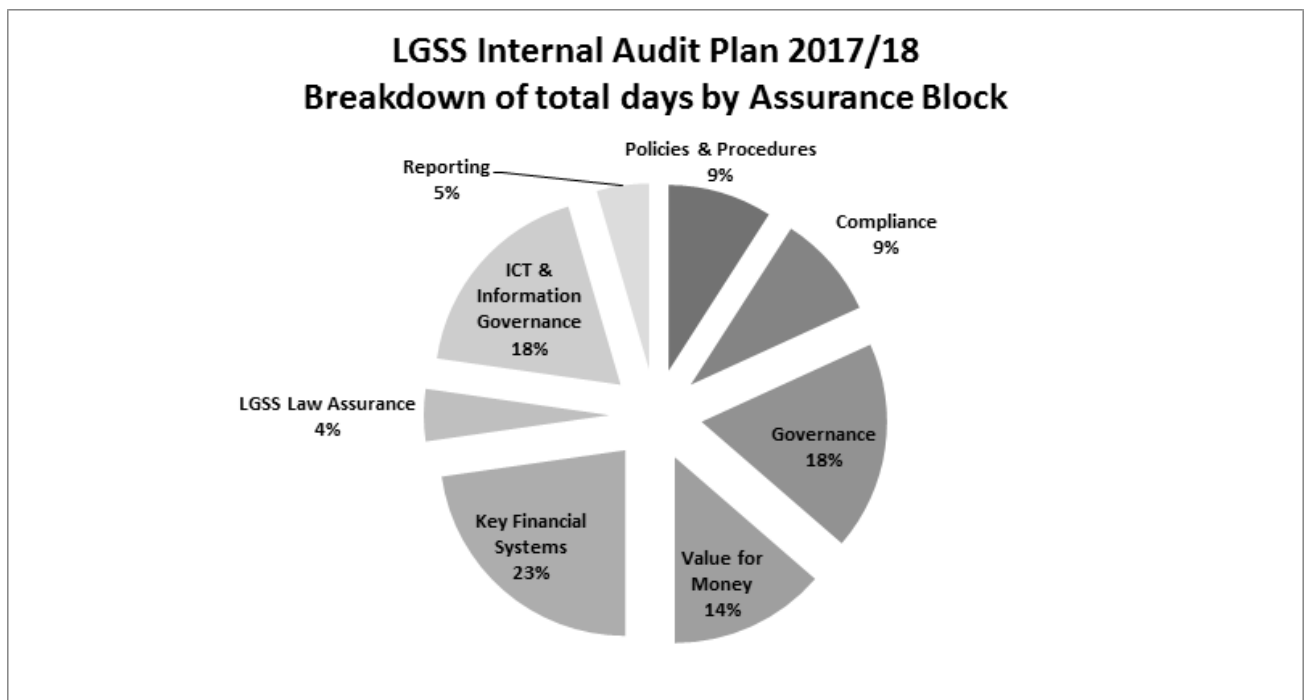
Northamptonshire County Council

1,450

Cambridgeshire County Council	1,550
Milton Keynes Council	1,450
MK Dev Partnership	30
Norwich City Council	470
East Cambs District Council	230
Northampton Partnership Homes	105
Welland	
- Rutland County	309
- Market Harborough	181
- Corby	294
- East Northants	175
- Melton Mowbray	180

## **5. LGSS Audit Plan Summary**

- 5.1. Whilst LGSS IA is confident that the internal audit plans for our clients are targeted towards current risk and that outcomes are increasingly adding value there is an additional need to ensure that assurance can be given in respect of LGSS and LGSS Law governance to the Joint Committee. The audit of only clients' operations is not sufficient for the CIA to be able to give an evidence based annual assurance to the LGSS Managing Director and Joint Committee.
- 5.2. Consequently, the CIA and the LGSS Director of Finance have considered and developed audit plans that are targeted towards risk and that will, along with assurances gained from individual client audit reviews, provide the evidence necessary for the CIA to give an annual opinion on the governance of LGSS. The CIA annual internal audit opinion must conclude on the overall adequacy and effectiveness of LGSS' framework of governance, risk management and control for both LGSS Joint Committee and where such assurance underpins a Client's systems of control.
- 5.3. The diagram below sets out the scope of coverage across key themes.



- 5.4. In addition to the valuable independent assurance provided to the management team and Joint Committee, this opinion will be increasingly important to be able to demonstrate a culture of good governance and associated confidence to existing clients and potential new customers.
- 5.5. To support that and in accordance with PSIAS a new Internal Audit Charter has been developed to support and underpin the various client and LGSS plans. The new Internal Audit Charter is attached at Annex C.
- 5.6. The Internal Audit Plans must be sufficiently flexible to enable assurance over current risk areas, as well as emerging risks, and those risks which are yet to be identified. The plan;
- Identifies the Known Knowns to be audited e.g. Governance & Financial Systems
  - Takes account of the Known Unknowns i.e. those new or emerging issues e.g. Agresso implementation
  - Is flexible for the Unknown Unknowns that may arise during the year e.g. new partners, new contracts, key projects, emerging risks etc.
- 5.7. The draft plan 2017/18 Report is attached at Annex A. Progress against this will be monitored throughout the year and key issues (including any material matter that impacts directly upon LGSS within a Client's audit programme) will be reported to LGSS Management Board and the Joint Committee each quarter.

## **6. LGSS Law Ltd Plan Summary**

- 6.1. As a separate Limited Company, LGSS Law Ltd operates independently as a wholly owned company of LGSS. The same approach has been adopted in developing the 2017/18 Audit Plan.
- 6.2. The Board of LGSS Law Ltd approves the plan but it is attached at Annex C for noting and any comment.

# **Internal Audit of LGSS**

**2017/18**



LGSS Audit and Risk Management  
March 2017

## **1. BACKGROUND**

### **1.1. The Accounts and Audit Regulations (2015) sets out that:**

*A relevant authority must ensure that it has a sound system of internal control which—*  
*(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*  
*(b) ensures that the financial and operational management of the authority is effective; and*  
*(c) includes effective arrangements for the management of risk.*

And that:

*A relevant authority 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.*

*A relevant authority must, each financial year—*  
*(a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and*  
*(b) prepare an annual governance statement*

1.2. LGSS is a Local Authority Shared Service organisation with joint 'ownership' by Northamptonshire County Council, Cambridgeshire County Council and Milton Keynes Council managing services via delegated budgets. LGSS provides Internal Audit services to the above 3 Councils and a variety of customers. Delegated budgets remain subject to the legal provisions applicable to all its sovereign / owning Councils i.e. subject to the Accounts and Audit Regulations.

1.3. The Public Sector Internal Audit Standards (PSIAS) issued in April 2016 defines the service and professional standards for public sector internal audit services. These include the need for risk-based audit plans to be developed and to receive input from management and the 'Board' (usually discharged by a Council's Audit Committee) on those plans. For LGSS the Board functions would be discharged through both the Joint Committee and the individual Council Audit Committees.

### **1.4. Key, specific PSIAS provisions include:**

*PSIAS : 2010 - "The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."*

*PSIAS : 2450 – "The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."*

- 1.5. The LGSS Chief Internal Auditor performs the role of the Chief Audit Executive and he/she ensures that internal audit resources are appropriate, sufficient and effectively deployed to achieve the Internal Audit Plan.
- 1.6. The Audit Plan must also consider the relevant Risk Register information and the LGSS current Risk Register data is set out at Annex A
- 1.7. The Control Assessment methodology used to form the required Audit Opinion is set out in full at Annex B. In summary it has three key elements:
  - 1) Assess and test the CONTROL ENVIRONMENT,
  - 2) Test COMPLIANCE with those control systems, and
  - 3) Assess the ORGANISATIONAL IMPACT of the area being audited.
- 1.8. In simple terms, to achieve the above every audit:
  - 1) Identifies / documents the agreed objectives of the audited system / service purpose
  - 2) Evaluates the control systems / governance arrangements to ensure they:
    - a. align to the delivery of the service purpose
    - b. measure performance effectively
    - c. mitigate the threats to achieving the service purpose
  - 3) Tests the adequacy of operation of controls to achieve the agreed objectives / service purpose.
- 1.9. Audit findings are reported to the relevant Manager / Service area, the relevant Finance Director and the LGSS Managing Director. Periodic summary reports will be issued to the LGSS informal and formal Management Board, the Joint Committee and Audit Committees (in respect of their individual Audit Plans).
- 1.10. An Annual Audit Opinion is then constructed based upon the years' work and formally reported as appropriate.

## **2. THE 2017/18 ANNUAL PLAN**

- 2.1. Individual Audit plans are consulted with each client and submitted through the relevant Audit Committee for approval. All plans must be sufficiently flexible to enable assurance over current risk areas, as well as emerging risks, and those risks which are yet to be identified. The plan set out below:
  - Identifies the Known Knowns to be audited eg Governance & Financial Systems
  - Takes account of the Known Unknowns ie those new or emerging issues within a new organization eg Agresso implementation



- Can be flexible for the Unknown Unknowns that may arise during the year eg new partners, contracts etc.

2.2. Inevitably, the potential for risks and unknowns is increased during initial periods of change. To reflect these risks, the Audit Plan contains an estimate of resources that are evolving after MKC joined the LGSS family. These are expected to evolve (and reduce) over time as the maturity of control systems grows.

2.3. The Audit Plan reflects the wider public and private sector issues, recognising that the environment within which LGSS (and its owners and customers) operates, has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding, austerity and transparency. The planned audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation.

2.4. The Audit Plan is dynamic and designed to be flexible if new risks emerge. There are considerable synergies with the assurance provided through the delivery of the IA service to key clients. Progress against the LGSS plan will be monitored throughout the year and key issues (including any material matter within a Client's audit programme) will be reported to LGSS Management Board and the Joint Committee each quarter.

2.5. The LGSS Audit Plan is an essential focus upon those systems and processes operated by LGSS both as an independent shared service organisation and delivered to its sovereign partners and clients. The audits set out below provide both governance to the Joint Committee regarding the governance operating throughout LGSS but also provides assurance regarding those systems relied upon by its clients.

2.6. The table below provides a summary of the 2017/18 IA Annual Plan.

<b>Annual Audit Plan 2017/18</b>		
<b>Audit Area</b>	<b>Days</b>	<b>Timing</b>
Governance		
• Key Policies and Procedures	10	Q2
• Scheme of Delegation Adherence	10	Q2
• Joint Committee roles and functions (inc R&B)	10	Q3
Target Operating Model (Perf Mgmt / Risk Management / Outcomes)	10	Q3
Medium Term financial planning / Budget Management	15	Q3/4
Financial Systems, including:	15	Q3
• Payroll		
• Creditors		
• Debtors		
Financial Systems – Third party assurance	10	Q3

LGSS Law Ltd	5	Q4
ICT Systems Security	20	Q2
Audit management and reporting	5	All
<b>TOTAL DAYS</b>	<b>110</b>	

2.7. A more detailed outline of the audit areas is provided below:

- **Policies & Procedures / Scheme of Delegation**

Effective policies and procedures drive the culture and risk appetite of the organisation and ensure key control principles are captured and formally embedded. This is particularly important within LGSS as a Shared Service delivering to multiple Clients and Owners.

A number of policies and procedures will be reviewed to ensure these are: up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved.

Compliance with an approved Scheme of Delegation (SoD) is a specific area for audit after MKC joined LGSS where it is essential the partners have a shared understanding of and there is a consistent compliance with:

- Decisions that are reserved for the Board / Joint Committee (submitted to and approved as appropriate)
- Key operational decisions are taken in accordance with approved SoD, and
- The SoD reflects the operational needs of LGSS and its services to support the delivery of LGSS's agreed, strategic objectives.

- **Target Operating Model**

This review provides assurance that policies and procedures translate into key, agreed, deliverable outcomes (usually articulated as Key Performance Indicators and/or Outcome Measures).

Testing is undertaken on the systems that monitor and report KPIs etc to the Management Board, Joint Committee and individual clients as well as providing assurance regarding the accuracy of the information reported.

Also LGSS risk management is assessed specific to the LGSS operational models (as opposed to risks for Clients and Customers).

- **Medium Term financial planning (MTFP) / Budget Management**

The need to have effective and robust financial management processes are essential to the strategic success of LGSS. MTFP and budget management are Key Systems of Control especially important following the addition of the 3rd partner.

The volatility of client demand and resulting cost drivers / targets also needs assessment to provide sufficient confidence that shared service benefits are delivered.

- **Key Financial Systems**

This is the traditional area of internal audit work, required by external audit, and focuses on providing the relevant Finance Directors with assurance that LGSS ‘has made arrangements for the proper administration of its financial affairs” required by each of the 3 partner Councils for their Accounting responsibilities.

Key financial systems are audited for each client as part of their audit plans. This work is undertaken at the same time as those audits to provide a focus on testing and implications to LGSS.

These are generally the systems that have the highest financial risk. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of LGSS systems.

The resources for these audits benefit from the synergies arising where IA provides the audit of finances and their systems for LGSS’s client Councils. 15 days is a low estimate of resources normally required benefiting from the work within client Council audit plans.

There is also some minor, additional work required to consider 3<sup>rd</sup> party audit assurances needed to be given to specific clients eg NBC. A small provision is included within this plan to collate those assurances for the confidence of the Management Board and Joint Committee.

- **LGSS Law Ltd**

A separate Audit Plan is submitted and agreed with LGSS Law Ltd as this operates as a separate company owned by LGSS.

5 Days is designated to consider and report the outcome / overall opinion from that work to LGSS Management Board and Joint Committee

- **ICT Security**

Most IT systems that LGSS operates are owned by Client Councils. Assurances are provided to Client Councils as part of their Audit Plans, however as a coordinated workstream across LGSS the operation of those controls needs to be assessed on a consolidated basis for LGSS Joint Committee.

This becomes more important as LGSS moves towards single / centralised systems operated by LGSS on behalf of multiple clients eg Agresso ERP, LGSS Email servers etc and the expansion of agile working across a wide geographical area. **The IT Audit Plan is set out in summary at Annex D as agreed across relevant clients.**

**Risk Register**

The LGSS corporate risk register is examined as a key source of intelligence to inform the Audit Plan (consistent with PSIAS requirements). The eight strategic risks were considered and there were three in a high amber category, with a score of 12. These were:

- Failure to provide customers with the services they require
- LGSS does not operate systems and processes which enable it to operate effectively, efficiently and economically in delivering services to its customers and achieving its business case.
- LGSS does not have staff with the right skills and experience

The risks within the register can be summarised as follows:

Ref.	Risk	Inherent risk score	Residual risk score
A1	LGSS fails to manage its financial situation in an effective manner	9	6
A2	Failure of LGSS growth plans consistent with the vision and strategy	12	9
A3	Failure to respond and adapt to the change in shape of our shareholder organisations	16	9
A4	Failure to support NCC in the implementation of its Federated Model	12	Under review
B1	Failure to provide customers with the services they require	12	12
B2	Failure to realise agreed targeted savings with customers	8	3
C1	LGSS does not operate systems and processes which enable it to operate effectively, efficiently and economically in delivering services to its customers and achieving its business case.	16	12
D1	LGSS does not have staff with the right skills and experience	12	12

**Control Assessment Methodology**

The required Audit Opinion for every audit is provided in 3 parts as below:

Control Environment Assurance	
Level	Definitions
<b>Substantial</b>	Minimal control weaknesses that present very low risk to the control environment
<b>Good</b>	Minor control weaknesses that present low risk to the control environment
<b>Moderate</b>	Control weaknesses that present a medium risk to the control environment
<b>Limited</b>	Significant weaknesses that present a high risk to the control environment
<b>No Assurance</b>	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

Compliance Assurance	
Level	Definitions
<b>Substantial</b>	The control environment has substantially operated as intended although some minor errors have been detected.
<b>Good</b>	The control environment has largely operated as intended although errors have been detected
<b>Moderate</b>	The control environment has mainly operated as intended although errors have been detected.
<b>Limited</b>	The control environment has not operated as intended. significant errors have been detected.
<b>No Assurance</b>	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Cross Cutting Themes

Theme	Audit	Description	Days
Management of IT	IT Strategy	Review of the adequacy of the approach to IT Strategy development and the associated governance processes.	10
	IT Risk Management	Review of the effectiveness of risk identification and management in LGSS IT.	10
Physical Security	IT Physical security	A review of a sample of key sites for the adequacy of physical security of IT assets.	10
Information Security	Network access and infrastructure	A review of the overall control of access to the IT network managed by LGSS.	15
	Cyber Security	Identify the key information assets and assess whether they are afforded adequate protection, and whether cyber security risks are managed on an ongoing basis. In addition to governance the review would consider security incident management controls	15
Continuity of Systems	Business continuity	Review of the approach to business continuity and the interface of IT continuity with client business priorities	15
IT Acquisition and project delivery	IT Procurement	Review of IT procurement strategies and procedures including compliance with MKC/NCC/CC contract procedure rules	20
LGSS IT Sub Total			<b>95</b>

Client Specific Reviews

CLIENT	AUDIT TITLE	DESCRIPTION	DAYS
NCC			
	New ERP system IT Controls	Review of the General Computer Controls in place, with a focus on: access controls; physical security controls; system and data backup and recovery; system development and program change management controls.	30
	Controls review of critical systems	Systems to be determined	15
	Agresso data migration	Assurance on migration of data from Oracle to Agresso	15
	Assurances from 3 <sup>rd</sup> Parties	Review of risks and assurances from services providers who hold NCC data.	10
	IT security culture	Evaluation of IT security awareness amongst staff and senior managers	10
	Information security	Review of arrangements for Information Security, with a focus on: policies and procedures; compliance with legislative requirements; communication and staff awareness; compliance monitoring; and incident handling.	20
Client Sub Total			<b>100</b>

CLIENT	AUDIT TITLE	DESCRIPTION	DAYS
CCC			
	New ERP system IT Controls	Review of the General Computer Controls in place, with a focus on: access controls; physical security controls; system and data backup and recovery; system development and program change management controls.	30
	Controls review of critical systems	Systems to be determined	15
	Agresso data migration	Assurance on migration of data from Oracle to Agresso	15
	Assurances from 3 <sup>rd</sup> Parties	Review of risks and assurances from services providers who hold NCC data.	10
	IT security culture	Evaluation of IT security awareness amongst staff and senior managers	10
	Information security	Review of arrangements for Information Security, with a focus on: policies and procedures; compliance with legislative requirements; communication and staff awareness; compliance monitoring; and incident handling.	20
		Client Sub Total	<b>100</b>
MK			
	Data Hosting Project	Follow up of Data hosting health check including back-up resilience. Links to business continuity plans. Speed/resilience of links between MKC/NCC/CCC.	8
	Information security	Review of arrangements for Information Security, with a focus on: policies and procedures; compliance with legislative requirements; communication and staff awareness; compliance monitoring; and incident handling.	20
	General Data protection Regulation compliance preparation	Check accountabilities established for General Data Protection Regulation Compliance and necessary actions taken.	7
	Assurances from 3 <sup>rd</sup> Parties	Review of risks and assurances from services providers who hold NCC data.	10
	New ERP system IT Controls	Review of the General Computer Controls in place, with a focus on: access controls; physical security controls; system and data backup and recovery; system development and program change management controls.	20
		Client Sub Total	<b>65</b>
NoCC			
	Information Security	Review of arrangements for Information Security, with a focus on: policies and	10

CLIENT	AUDIT TITLE	DESCRIPTION	DAYS
		procedures; compliance with legislative requirements; communication and staff awareness; compliance monitoring; and incident handling.	
	Controls review of critical systems	Systems to be determined	15
	Financial Systems IT Controls	Review of the General Computer Controls in place, with a focus on: access controls; physical security controls; system and data backup and recovery; system development and program change management controls.	15
		Client Sub Total	<b>40</b>
NASS (NCC Group)			
	Apollo system	Review of the extent to which the new systems and processes have been embedded as business as usual and the benefits have been realised.	10
		Client Sub Total	<b>10</b>
		<b>TOTAL CLIENT SPECIFIC REVIEWS</b>	<b>315</b>
		<b>LGSS IT Reviews</b>	<b>95</b>
		<b>TOTAL</b>	<b>410</b>