

LGSS Law Ltd

2017/18 Internal Audit Plan



LGSS Audit and Risk Management
March 2017

2017/18 Internal Audit Plan

1. BACKGROUND

- 1.1. LGSS Law Ltd is a company wholly owned by LGSS offering an independent legal service. Whilst a separate legal company its structure within LGSS provides that its governance is subject to public sector audit standards whilst respecting its independence.
- 1.2. Therefore LGSS Internal Audit & Risk service is required to provide assurance to LGSS regarding the governance of LGSS Law Ltd and is commissioned to provide the Internal Audit Service to LGSS Law Ltd .

- 1.3. 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*

- 1.4. The Public Sector Internal Audit Standards (PSIAS) issued in April 2013 include the need for risk-based plans to be developed for internal audit and to receive input from management and the 'Board' (usually discharged by the Council's Audit Committee).

- 1.5. The work of Internal Audit therefore derives directly from these responsibilities, including:

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."

- 1.6. The LGSS Law Ltd internal audit annual plan therefore needs to include an appropriate and comprehensive range of work which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by the Audit Committee.

1.7. The LGSS Chief Internal Auditor performs the role of the Chief Audit Executive and ensures that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan.

1.8. The LGSS Joint Committee performs the oversight role as the LGSS Law Ltd Audit Committee.

2. INTERNAL CONTROL ASSESSMENT

2.1. Each Internal Audit has three key elements as set out below:

- 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. is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.

2.2. These 3 assurance opinions are therefore given at the conclusion of each audit as set out below:

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Moderate	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected
Moderate	The control environment has mainly operated as intended although errors have been detected.

Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	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.

2.3. Where specific compliance reviews are undertaken e.g. grant certification, the following definitions are used to assess the level of compliance in each individual reviewed, albeit each certification usually requires the Chief Internal Audit and Chief Executive to formally certify compliance with grant conditions

Opinion for Compliance Audits – Levels of Compliance	
Level	Definitions
High	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
Medium	There was general compliance with the agreed policy and/or procedure. Although errors have been identified there are not considered to be material.
Low	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

2.4. Individual audits are reported to relevant Manager / Service area, the LGSS Law Ltd Finance Director and the Managing Director. Periodic summary reports are issued to the Audit Committee (or equivalent).

2.5. An Annual Audit Opinion is then constructed based upon the years' work and formally reported to the Board, MD and relevant stakeholders to inform the LGSS Law Ltd Annual Governance Statement and Accounts.

3. THE ANNUAL PLAN

3.1. The Internal Audit Plan 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 for Audit eg Governance and Financial Systems
- Takes account of the Known Unknowns ie those new or emerging issues within a new organization eg Performance Management and Funding Reconciliations
- Can be flexible for the Unknown Unknowns that may arise during the year.

3.2. 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 will be evolved over time reflecting the actual risks within specific areas and the maturity of control systems. The resources estimated should reduce in year 3 and onwards ie 2019/20 once evidence of control has been found reliable in years 2 and 3.

3.3. The Audit Plan reflects the wider public and private sectors LGSS Law Ltd operates within, recognising that this 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.

3.4. The Audit Plan is dynamic and designed to be flexible if new risks emerge. The Audit Plan totals 85 days.

3.5. Progress against the plan will be monitored throughout the year and key issues reported to senior management and the Audit Committee each quarter.

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

LGSS Law Ltd Annual Audit Plan 2017/18		
Audit Area	Days	Timing
Governance Model		
- Key Policies and Procedures	10	Q2
- Scheme of Delegation Adherence	15	Q2
Target Operating Model (Perf Mgmt / Outcomes)	10	Q3
Medium Term financial planning / Budget Management	15	Q2
IT Audit Assurance	10	Q2
Financial Systems – Local testing	15	Q3
Financial Systems – Third party assurance	5	Q3
Audit management and reporting	5	All
TOTAL DAYS	85	

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

- *Governance - 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 review will be linked to the need for an Annual Governance Statement to complement the LGSS Law accounts including a review of core policies against modern best practice, E.g. the new CIPFA guidance on Corporate Governance issued in April 2016.

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 in the early years of an organization ensuring that:

- Decisions reserved for the Board etc are submitted to and approved as appropriate
- Key operational decisions are taken in accordance with approved SoD, and
- The SoD reflects the operational needs of the services

- *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 as well as providing assurance regarding the accuracy of the information reported.

- *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 Law Ltd. LGSS Law Ltd's MTFP and budget management are Key Systems of Control especially important during the first few years of operation.

The stand alone nature of the Quill system and processes will require wider testing and the volume and nature of transactions likely to require a large sample for testing to provide compliance assurance given the variable nature of billing transactions based on time.

The volatility of service demand and cost drivers also needs assessment before sufficient confidence can be drawn and audit resource reduced.

- *IT Audit*

Previously the plan did not include any IT or Data Management audits etc. Internal Audit obtains assurance from LGSS systems audits where LGSS Law Ltd operates on those platform eg email etc. A further audit is proposed where specific system security and data management etc will be audited to verify resilience.

- *Financial Systems*

This is the traditional area of internal audit work, required by external audit, and focuses on providing the Finance Director (both LGSS Law Ltd MD, Board and LGSS) assurance that LGSS Law Ltd 'has made arrangements for the proper administration of its financial affairs.'

Mostly these audits are agreed in advance with External Audit and are used as the basis by which External Audit area able to place reliance on Internal Audit work as part of their Final Accounts audit and IA's work reduces that cost.

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 accounts.

This work also enables IA to provide 3rd Party Assurances to key stakeholders including LGSS, it's owning partners and others where appropriate.

4. Implications

- Policy

The Audit Plan is aligned to the Internal Audit Strategy and individual audits provide assurance of compliance with a wide range of LGSS Law Ltd policies.

- Legal

The Plan report provides one of the core sources of assurance to support both the LGSS Law Ltd and NCC Annual Governance Statements in order to meet legal responsibilities under the Accounts and Audit Regulations.

5. Resources and Risk

Internal Audit work is charged to LGSS Law Ltd at a 'blended' daily rate of £350 per day (as opposed to the actual time charges of relevant IA officers).

85 Days @ £350 pd provides an annual charge of £29,750 with the Plan to be completed (all reports to draft stage) by 31st March 2018.