

**LGSS Joint Committee**

**31<sup>st</sup> October 2019**

**Subject: LGSS Internal Audit Update**

**Recommendation:**

**To note this report and agree that the agreed LGSS Internal Audit plan should not be progressed until the operating model review work is complete and the plan revisited in the context of the outcomes of the review.**

## **1. RECOMMENDATIONS**

- 1.1 The Joint Committee (JC) note this report and agree that the agreed LGSS Internal Audit plan should not be progressed until the operating model review work is complete and the plan revisited in the context of the outcomes of the review.

## **2. INTRODUCTION**

- 2.1 The JC approved an Internal Audit Annual Plan in Dec 2018 (Appendix A). The JC also considered the creation of an Audit Committee consistent with public sector Internal Audit and Audit Committee best practice.
- 2.2 Given the ongoing review of the future operating model for LGSS, a separate Audit Committee has not yet been created.
- 2.3 The LGSS specific Internal Audit plan has also been suspended pending the resolution of the LGSS review. However, a number of areas of the LGSS operation have been audited as part of the audit plans of the three partner councils.

## **3. ISSUES**

- 3.1 Each client approves Internal Audit plans that involve the audit of systems and compliance through LGSS staff and services. Whilst those audits provide assurance regarding LGSS operations they do not provide a basis to give audit opinion on those issues that are not client specific but are LGSS specific across all clients. The need for a separate LGSS Audit Plan (estimating 150-160 days) was set out in detail in the Dec 2018 report, but in simple terms the LGSS Audit Plan proposed:
  - 3.1.1 To test the organisational governance of LGSS as a shared service organisation and management structure (inc performance management etc)
  - 3.1.2 To test its financial management as a shared service organisation managing delegated budgets
  - 3.1.3 To assess the adequacy of its Risk Management and ICT Security provisions.
- 3.2 Given the LGSS governance and service arrangements have been under review, with significant change almost certain, the LGSS Audit Plan has not been progressed as there is minimal value in auditing governance arrangements that will change. It was expected the review would be completed in 3-6 months allowing a revised plan (reflecting those new arrangements) to be progressed. However given the LGSS review remains ongoing the LGSS Audit plan has not been progressed.
- 3.3 In addition to delays as a result of the LGSS review, the resourcing of the LGSS plan was not resolved. With other things going on across the partner councils resources have been needed elsewhere, and there have been significant competing pressures on the internal audit team's time.
- 3.4 The Internal Audit work for clients has audited the shared systems operated by LGSS across multiple clients. Those have been reported to individual clients throughout the year (including to Client Audit Committee's and Management teams) and will continue to be reported as required by the Public Sector Internal Audit Standards.

3.5 Internal Audit work being undertaken for LGSS partner council clients during 2019/20 cover the following LGSS services:

- Accounts Receivable
- Purchase to Pay
- Payroll
- General Ledger
- Bank Reconciliation
- Treasury Management
- VAT
- Financial Systems IT General Controls
- Debt Recovery
- Pensions
- Procurement
- IT key risk areas – including disaster recovery, service resilience, cyber security

3.6 It is highlighted that ERP (the Finance systems) was audited during 2018/19 across all clients and remains an area of particular focus for clients and Internal Audit. In summary:

3.6.1 ERP, as a system, was found to have been implemented as agreed with clients

3.6.2 The 1<sup>st</sup> 6 months of 2018/19 required (as expected) various aspects to be improved but on the whole systems of control were found to be satisfactory

3.6.3 Compliance issues were identified. These were derived from the limited training agreed with clients within implementation and are not uncommon in new system implementation, but should have improved as at year end.

3.6.4 As reported on multiple occasions the formal audit opinion requires at least 1 full (ideally 2) accounting cycles to be completed ie 12 months full operation and accounts externally audited and signed off as 'true and fair' / unqualified. That full 1 year period is not yet complete.

3.6.5 Clients have expressed a frustration with the pace to address those issues however these are now subject to regular and formal review with 151 Officers.

3.7 Internal Audit has rescheduled its ERP audits to Nov/Dec (with potentially some further testing in Mar) to re-examine those issues to establish that those issues evident previously have now been addressed, or can be prior to year end 2019/20.

## **4. CONCLUSION**

4.1 In the context of the ongoing review of the LGSS operating model it is recommended that the agreed LGSS Internal Audit plan should not be progressed until the operating model review work is complete and the audit plan revisited in the context of the outcomes of the review.

Audit Area	2019/20	
	Days	Timing*
Governance		
• Joint Committee roles and functions (inc R&B)	10	19/Q3
• Key Policies and Procedures	10	19/Q3
• Scheme of Delegation Adherence	10	19/Q3
Target Operating Model (Strategic Planning / Perf Mgment / Risk Management / Outcomes)	10	19/Q4
Medium-Term financial plan/Budget Mg'ment	15	
• Accounts Payable	5	19/Q4
• Accounts Receivable	5	19/Q4
• Debt Recovery	5	19/Q4
Shared Service Systems Integrity / Assurance:		
• Key Fin systems inc ERP systems eg Payroll	20	19/Q3&4
• Procurement / Commissioning	10	19/Q3
Risk Management	25	19/Q3
ICT Systems Security	25	19/Q4
Audit management and reporting	10	All
<b>TOTAL DAYS</b>	<b>160</b>	