

## **LGSS INTERNAL AUDIT REPORT PLAN 2018/19**

*To:* **LGSS JOINT COMMITTEE**

*Meeting Date:* **14<sup>th</sup> December 2018**

*From:* **Head of Internal Audit**

*Purpose:* **To consider the LGSS Internal Audit Plan 2018/19**

*Recommendation:* **The Committee is asked to:**

- a) note and approve the combined LGSS 2018/19 and 2019/20 audit plans**
- b) highlight any governance issue it would like to be included within the proposed audit plan. (NB. Key issues would include critical LGSS risks where the Joint Committee would benefit from Internal Audit assurance)**
- c) note that given other unplanned pressures on Internal Audit and the LGSS change agenda (eg ERP, support to NCC Commissioners etc, CIPFA reviews of LGSS etc) the 18-19 work will be programmed as part of a combined 2018-20 audit plan. The Annual Audit opinion for 18-19 will therefore place reliance on testing associated with client transactions as opposed to the corporate governance of LGSS as a shared service entity with delegated powers**

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## **1. RECOMMENDATIONS**

- 1.1 The Joint Committee (JC) are invited to note and approve the combined LGSS 2018/19 and 2019/20 audit plans.
- 1.2 The JC is invited to highlight any governance issue it would like to be included within the proposed audit plan NB Key issues would include critical LGSS risks where JC would benefit from IA assurance.

The JC are asked to note that given other unplanned pressures on Internal Audit and the LGSS change agenda (eg ERP, support to NCC Commissioners etc, CIPFA reviews of LGSS etc) the 18-19 work will be programmed as part of a combined 2018-20 audit plan. The Annual Audit opinion for 18-19 will therefore place reliance on testing associated with client transactions as opposed to the corporate governance of LGSS as a shared service entity with delegated powers.

## **2. INTRODUCTION**

- 2.1 This report sets out the basis for an LGSS Internal Audit Plan (Appendix 2) and the professional audit standards (Appendix 1) that drive the need for an LGSS audit plan. The draft plan was considered by the LGSS Management Team on 25/09/18 and 16/11/18.
- 2.2 Despite the service outlining proposals to the previous LGSS Managing Director the service has not audited LGSS systems, except as part of client specific assurance plans. Each client approves an Audit Plan under their responsibilities as defined within the Accounts and Audit Regulations (A&A) and Public Sector Internal Audit Standards (PSIAS). Whilst there is significant overlap between LGSS delivery of client services and LGSS management controls there is a need to audit those overarching organisational controls operated by LGSS.
- 2.3 During 2016/17 and into 2017/18 LGSS IA was externally reviewed (as required by the PSIAS) which found the service compliant with its PSIAS requirements. That assurance was reported to CCC, NCC and MKC Audit Committees.
- 2.4 The audit of LGSS (as a separate 'organisation') is a current gap within audit scope and coverage. It is estimated that 80-90% of LGSS activity is undertaken through delegated powers from individual clients and/or contract specifications. The audit of those systems test the operation of controls irrespective of whether performed by client or LGSS staff. That work provides each client with the required Annual Audit Opinion that supports each Client's Annual Governance Statement.
- 2.5 Whilst client audit plans provide 80-90% coverage of LGSS activities, the management of LGSS as a distinct shared service operation, exercising delegated powers from multiple sovereign partners, is not currently audited. The need for these areas to be audited is illustrated by the recent need to engage CIPFA in reviewing the 'operating model' of LGSS.

- 2.6 The proposed LGSS plan (as detailed at Appendix 1) estimates 150 days pa are required which equates to just 3% of the 3 sovereign partners plans and only 2% of the total client plans. The assurances derived should be relevant to all clients and the reputation of GLSS within the shared service marketplace.
- 2.7 The LGSS IA service aims to provide the estimated plan within existing resources but given the areas have not been audited before the plan is an indicative, additional and unfunded pressure on the existing structure of the IA service. The resources needed are an estimate based on client plans and the adequacy of control across clients which is mostly good.
- 2.8 Within the first periods auditing a new organisation the first 2 years of testing provide evidence to determine the resources required. **Given the CIPFA reviews may significantly alter the operating model that may reduce the need to audit LGSS separately or more likely complicate its audit and combined with initial analysis of ERP controls etc provide some indications the current estimate is optimistic and additional resources may be required if the completion of audit plans is to be achieved.** Once reliable systems and compliance are verified it should be possible to reduce the resources required from the initial estimate.
- 2.9 Client concerns regarding LGSS governance have been increasingly vocalised within client audit committees where perceptions have been expressed that the value for money delivered by LGSS and its controls / governance are not demonstrable / transparent. IA has been asked to review those issues on an adhoc nature which inevitably provides a focus on negatives / concerns as opposed to a systematic, objective opinion on LGSS activities and controls. Again illustrating the need for an annual audit of LGSS key controls and processes.
- 2.10 Appendices
- 1) Summary of Regulations and Standards applicable to public sector
  - 2) Internal Audit Proposed LGSS 2018-20 Audit Plan
- 2.11 Client specific annual audit plans are available on request and are approved by client Audit Committee's following consultation with each Client's senior management team. It is also highlighted that the IA service delivers to the following clients in addition to LGSS's sovereign partners (CCC, NCC and MKC) as well as adhoc work across the regional public sector eg Academies and Parish Councils:

|                               |                                      |
|-------------------------------|--------------------------------------|
| Melton Borough Council        | Norwich City Council                 |
| Harborough District Council   | East Cambridgeshire District Council |
| East Northamptonshire Council | LGSS Law Ltd                         |
| Rutland County Council        | MK Development Partnership           |

|                          |                                     |
|--------------------------|-------------------------------------|
| Corby Borough Council    | Northants Partnership Homes (Fraud) |
| Northants Fire Authority |                                     |

### 3. ISSUES

- 3.1 The content of client approved audit plans is relevant to LGSS Joint Committee in demonstrating the common themes (and thus efficiencies from a shared service Internal Audit). A separate / distinct LGSS Audit Plan is needed that:
- 3.1.1 Provides assurance to LGSS sovereign owners re: the governance of LGSS operations as a distinct Shared Service Provider eg savings delivery, operational management etc
  - 3.1.2 Enables LGSS IA provide assurance to all clients re: LGSS governance and efficiency eg independent analysis of target delivery / performance management
  - 3.1.3 Auditing LGSS's delivery of client services does not provide sufficient assurance to clients re: LGSS governance.
- 3.2 Modern auditing no longer 'fixes' Audit Plans' across multiple years and best practice pushes a good IA service to review and change its annual plans throughout each financial year. That review is undertaken quarterly across all sites and submitted to each Leadership / Management Team and Audit Committee (as well as 151 Officers).
- 3.3 Client plans are flexible and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on key risks facing the organisation throughout the year.
- 3.4 The timing of individual audits are aligned as much as possible to enable efficient auditing e.g. financial systems audits are undertaken in quarter 4 to enable sufficient sample testing of financial years transactions to inform / assure the external auditor and support Annual Governance statement etc. This remains an evolving tension across all clients.
- 3.5 Appendix 2 outlines, within the same structure and format used for every client consistent with best practice, an LGSS 2018/20 Internal Audit annual plan. The key headings within the plan are summarised below together with a brief outline of the audit work proposed and assurances to be derived:
- 3.5.1 Organisational governance
    - Joint Committee and Management Team role and duties

*Good governance is achieved from clarity and a shared understanding (and*

*compliance) with senior strategic and operational management responsibilities across LGSS. The Joint Committee provides a Board of Directors role that oversees good governance across shared service delivery. The audit of this heading would focus on quorate strategic decisions including informed, recorded and disseminated decisions and appropriate schemes of delegation to senior managerial roles. EG target setting and prioritisation of shared service delivery and improvement, MTFP approvals, reserved decisions etc.*

- LGSS specific key policies and procedures (as distinct from LGSS adherence to client policies) eg shared service budget management, agile working etc

*Some operations require shared service policy beyond client policy. An example might be LGSS business continuity distinct from individual client BC plans.*

- Shared Service Risk Management / Business Continuity arrangements

*LGSS manages risks (both threats and opportunities) distinct from client risks. An example would be income generation / traded services where revenue subsidises the cost of services to sovereign partners but can be perceived or in reality dilute resources applied to client services.*

### 3.5.2 Target Operating Model

This heading describes those systems where LGSS delivers its shared service objectives in addition to service specific delivery measures for clients. Assurance will be tested that LGSS has sufficient systems and controls to deliver its organisational objectives across all clients and those performance measures set by the Joint Committee.

*This area encompasses performance management measures and savings targets etc where the shared service model can deliver lower costs from economies of scale (and other models). The coordination of these across shared services is a key governance system in delivering LGSS objectives. Eg revenue targets for services and the LGSS total income / savings targets.*

*This complements and overlaps with Risk Management as below.*

### 3.5.3 Financial / Budget Management

LGSS financial targets (not just client targets) and also the coordination of budget management across shared services to ensure client targets are delivered, and agreed service standards maintained within 'LGSS bottom line' budget limits.

Key LGSS financial systems integrity where assurance derives for all clients and 3<sup>rd</sup>

party assurances required (eg NBC).

*Key assurances derive to clients that LGSS is effective at managing to budget limits (delivering to service standards) and provides fundamental assurance to sovereign partners that the shared service model delivers agreed financial efficiencies. EGs Assurances tested that:*

- *Reassure client (1) services are not undermined by the achievement of client (2) budget savings*
- *Collective Shared Service benefits are delivered across all sites rather than fragmented client / silo centric management.*
- *The NCC 114 situation provides an individual client tension / pressure that must be managed to provide sovereign partner shared agreement.*

*This area of work also provides an opportunity to examine and share successful best practice across all partners, eg duplicate payment prevention, effective debt collection etc that can inform improved client policy and practices etc.*

#### 3.5.4 Shared Service Assurances

There is a need and benefit from reviewing the shared services delivered to individual clients through a lense of shared service. Financial efficiency and service quality are only derived from the shared service ethos implemented across clients. Shared services should also be able to demonstrate the adoption of best practice to the benefit of all clients and provide benchmarking learning.

*A cycle of audits to review shared service workstreams would provide assurances that the potential tensions of client specific priorities are managed effectively to both (a) not undermine shared service benefits and (b) identify and maximise shared service opportunities.*

*Initial focus is likely to need to be on financial systems such as Accounts Payable and Accounts Receivable (given ERP risks) as they support effective financial management. However subsequent opportunities are evident from audits of other area eg Procurement and Commissioning.*

#### 3.5.5 IT Systems and Security

LGSS manages extensive IT systems and information for its clients and sovereign partners. Whilst the systems and information is owned by the relevant client the assurances to individual clients for their information, data etc and the IT operational

issues specific to each client do not provide the wider assurance of effective Information Governance by LGSS.

*At its most minimal this audit would collate the IT security assurance work for each client into a single, considered assurance report for LGSS JC. It is however considered more beneficial to audit some aspects of IT systems and security from a more holistic perspective including:*

- *Disaster recovery (eg mutual client resilience)*
- *GDPR policy consistency and compliance*
- *Agile working (eg systems that effectively support remote working across multiple sites, reducing travel costs etc)*

3.6 A notional resource of 150 days has been estimated for this work. It is also necessary to highlight recent concerns expressed by some client officers and councillors, including the NCC commissioners regarding the current absence of assurance re: LGSS governance and delivery of targets. An LGSS IA plan should provide a significant improvement in such assurance and provide a mechanism for LGSS to route client concerns via internal audit examination of that issue, including the existing support and scrutiny from client audit committees.

3.7 Given the above issues have not been separately audited in the past initial audit planning must err on the side of larger testing to provide assurances. It is expected that when sufficient assurance is established the resources needed to audit stable, reliable systems would diminish from 2020/21.

3.8 This is, of course, subject to the outcomes of the CIPFA review(s).

#### **4. RESOURCES**

4.1 The LGSS IA Service maintains approx. 45 FTE posts that delivers approx. 7,100 days audit plan work across 15 clients.

4.2 A summary of the audit plans approved by clients is set out in the table below

| Client | 18/19 Indicative Days |
|--------|-----------------------|
| NCC    | 1,450                 |
| CCC    | 1,550                 |
| MKC    | 1,535                 |
|        | 4,535                 |
| NoCC   | 470                   |

|                   |       |
|-------------------|-------|
| MKDP              | 30    |
| LGSS              | 150   |
| LGSS Law Ltd      | 85    |
| ECDC              | 230   |
| NBC               | 50    |
| NPH               | 250   |
| Welland consortia | 1335  |
|                   | 7,135 |

Table 1 LGSS Audit client Audit Plans

- 4.3 As above the proposed 150 day LGSS plan represent just 2% of the client based plans and only 3% of the three LGSS sovereign partner plan total days.
- 4.4 With the introduction of ERP financial systems the scope to deliver efficiency across audits focussed on single systems with reliable controls becomes possible. However, during 2018/19 the new ERP system creates additional pressure to test and authenticate system governance individually across each client's operations. Best practice requires that enhanced testing to continue into the 2<sup>nd</sup> year of operation and then if found to be robust resources may be reduced in 2019/20. Therefore ERP creates additional pressure in 18-19 and 19-20 until sufficient evidence of stable / consistent control should then be evident.



## Internal Audit

### Regulation Summary

- 1) The core regulatory framework for Internal Audit can be summarised as (a) Accounts and Audit Regulations 2015 and (b) Public Sector Internal Audit Standards (2016).
- 2) 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*
- 3) The Public Sector Internal Audit Standards (PSIAS) revised 2016 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).
- 4) 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."*

- 5) 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.

# **Internal Audit of LGSS**

## **2018/20**



LGSS Internal Audit  
2018

## 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 2018/20 ANNUAL PLAN**

- 2.1. 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 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 table overleaf provides a summary of the IA Annual Plan spread across 2 years.

\*Timing (see table) is given as a proposal to undertake those audits within those quarters i.e.

18/Q4 denotes Jan/Feb/Mar of 2019  
19/Q1 denotes Apr/May/Jun of 2019  
19/Q2 denotes Jul/Aug/Sep of 2019  
19/Q3 denotes Oct/Nov/Dec of 2019  
19/Q4 denotes Jan/Feb/Mar of 2020

NB Whilst testing may be scheduled for 19/Q1 where that is proposed for 2018/19 audit it will test 2018/19 transactions across a sufficient sample to give an opinion on the full year. Given the historic nature of that testing some additional time is anticipated required.

| Annual Audit Plan 2018/19  |            |         |            |         |
|--|------------|---------|------------|---------|
| Audit Area   | 2018/19    |         | 2019/20    |         |
|  | Days       | Timing* | Days       | Timing* |
| Governance   |            |         |            |         |
| • Joint Committee roles and functions (inc R&B)                                      | 15         | 18/Q4   | 10         | 19/Q3   |
| • Key Policies and Procedures  | 10         | 18/Q4   | 10         | 19/Q3   |
| • Scheme of Delegation Adherence   | 15         | 18/Q4   | 10         | 19/Q3   |
| Target Operating Model (Strategic Planning / Perf Mgmt / Risk Management / Outcomes) | 10*        | 19/Q1   | 10         | 19/Q4   |
| Medium-Term financial plan/Budget Mg'ment  | 15         |         | 15         |         |
| • Accounts Payable   | 5          | 19/Q1   | 5          | 19/Q4   |
| • Accounts Receivable  | 10         | 19/Q1   | 5          | 19/Q4   |
| • Debt Recovery  | 10         | 19/Q1   | 5          | 19/Q4   |
| Shared Service Systems Integrity / Assurance:  |            |         |            |         |
| • Key Fin systems inc ERP systems eg Payroll   | 15         | 19/Q1   | 20         | 19/Q3&4 |
| • Procurement / Commissioning  | 10         | 19/Q1   | 10         | 19/Q3   |
| Risk Management  | 25         | 18/Q4   | 25         | 19/Q3   |
| ICT Systems Security   | 25         | 19/Q1   | 25         | 19/Q4   |
| Audit management and reporting   | 10         | All     | 10         | All     |
| <b>TOTAL DAYS</b>  | <b>175</b> |         | <b>160</b> |         |

\* This allocation may not be undertaken IF the CIPFA (and other reviews sufficiently address this issue). To date IA has not been involved in the scoping of said work nor its findings.

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

- Governance

As at the time of this report (Nov 2018) the future LGSS operational model is unclear from various factors including the CIPFA reviews and the NCC unitary project. There is need to resolve those issues in order to audit against those specified requirements however if not

resolved quickly the audits must be completed with assessment against existing requirements.

A shared service operation requires separate and distinct management to deliver the shared service benefits. Its governance is therefore central to ensure the delivery of shared service operations and provides assurance to owners of those benefits.

Effective policies and procedures drive shared service culture and that risk appetite ensuring key control principles are captured and formally embedded. This is particularly important within LGSS as a Shared Service delivering to multiple Clients and Owners.

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) defined within the LGSS strategic plans and SLA's etc.

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). The budget of this may prove optimistic as current suggests the LGSS risk register is only recently being developed and it is difficult to trace the golden thread from strategic plans to service performance.

- 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. Budget management for Clients is audited for client's budgets and this audit targets those issues where the LGSS provides greater 'flexibility' for its clients in financial management specific to LGSS.



Transactional testing on LGSS specific responsibilities (as distinct from delegated client authority). This is a minimal estimate to provide an initial analysis of the scope of LGSS specific responsibilities.

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

- 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.

Also the benefits of shared services that can provide efficiencies and resilience across multiple sites would provide assurance to 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 9 strategic risks were considered and evaluated recently with 5 assessed as a 'Red' as shown below.

The risks within the register can be summarised as follows:

| Risk Title |  |
|------------|--|
| 47670      | 01. Impact of NCC's financial resilience on the delivery of the LGSS model               |
| 47996      | 02. The impact of the developing Northamptonshire unitary model on the LGSS organisation |
| 47288      | 03. Complexity of the stakeholder environment results in poor relations                  |
| 47246      | 04. Not being valued as an innovator and change agent                                    |
| 47284      | 05. Delivering economies of scale  |
| 47286      | 06. Becoming disjointed with our core councils   |
| 47308      | 07. The LGSS savings commitments are not delivered                                       |
| 47287      | 08. Not delivering and demonstrating value for money                                     |
| 47247      | 09. Organisational capacity, resilience & capability (people, systems and accommodation) |

Risk Management is a continual process that should assess risks as they emerge although in practice this derives from formal periodic reviews eg quarterly. 2 issues are considered significant emerging risks with a need to assess and resolve quickly not wholly within LGSS sphere of control.

- (1) Paralysis of improvement derived from ongoing multiple reviews of LGSS and its operations
- (2) Operational resilience in the light of NCC closure and the impact on the shared service 'brand' derived from public criticism by LGSS owners of LGSS.

An emerging risk also appears evident where the LGSS service knowledge is not engaged in the choices for LGSS owners

Risk 1 represents an external 'environmental' factor needing to be monitored and LGSS is more reactive to those risk triggers.

Risks 2-9 are issues that directly influence the proposed Audit Plan. For example 4, 5 and 7 are outcomes from control / governance systems identified for audit in 2018-19. Put simply an audit of Performance Management systems will provide assurance (to LGSS management Team and Joint Committee) that key targets/ objectives are defined, agreed and systems give confidence that they will be delivered or variance highlighted promptly for corrective action to be taken.

More detailed analysis is available upon request

### **Control Assessment Methodology**

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

| <b>Control Environment Assurance</b> |  |
|--------------------------------------|--|
| <b>Level</b>                         | <b>Definitions</b>   |
| <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 |

| <b>Compliance Assurance</b> |   |
|-----------------------------|---|
| <b>Level</b>                | <b>Definitions</b>  |
| <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.              |

| <b>Organisational Impact</b> |  |
|------------------------------|--|
| <b>Level</b>                 | <b>Definitions</b>   |
| 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.                                 |

