

Tilia Solutions
CORPORATE GOVERNANCE CONSULTANCY



FINAL

**Review of LGSS's Internal Audit Service
at
Cambridgeshire County Council
Milton Keynes Council
Northampton County Council**

07 June 2017

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Review of LGSS's Internal Audit service (May 2017)

Internal audit in the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS) which have been in place since 1 April 2013 and were revised on 1 April 2016 and further revised on 1 April 2017. The standards require periodic self-assessments and an assessment by an external person every five years, including checking compliance with the Local Government Advisory Note (LGAN) where this has requirements in addition to those in the PSIAS.

LGSS's internal audit function covers a number of authorities and this external quality assessment (EQA) looked only at the service provided to Cambridgeshire and Northamptonshire County Councils and Milton Keynes Council. While my findings relate specifically to these three councils, they may also apply to other councils whose internal audit service is provided by LGSS. My review took the form of week-long visits to each council during the winter to carry out a detailed compliance check, followed by a day-long visit to each in May 2017 to check progress against the areas for improvement identified in the initial reviews.

The EQA was carried out through a process of interview and document review. A list of interviewees is included as appendix 2. I should like to thank all those who took the time to talk to me for their help. I reviewed sixteen audits carried out during the 2015/16 and 2016/17 financial years and I examined key documents including the Charter and reports to each of the Audit Committees. During the follow up, I checked all areas where I had made recommendations for evidence of implementation or progress towards implementation.

In the course of my initial reviews, I identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. However, I noted a lack of common practices between the three sections and minimal sharing of ideas and processes, reducing the benefits of having a shared service. At the follow up, I was pleased to find progress in moving towards a unified approach across LGSS, although there was still a sense that, for some staff, their primary focus was towards their employing council rather than towards LGSS. This recognises the preference of some clients for an 'in-house' model of audit that LGSS reflects within its staffing culture.

In my EQA feedback, I expressed concerns about the lack of emphasis on risk in terms of reference and reports at all three councils. While I was assured that risk was considered in all audits, there was often little evidence of this in the formal planning documents or in the final reports. LGSS has now developed a terms of reference and report format to be used at all councils, both of which give risk far greater prominence. These documents have only recently been introduced and few audits have been performed using them so I cannot judge if they will entirely address the issues identified but they are a significant step forwards. I did, however, note that one of the two councils who have already adopted these new formats is using an earlier version of both documents, while the other council has made further improvements to both but not shared these. While it is crucial to reflect individual client needs in audit reporting, and some differences are to be expected, LGSS must find a way to ensure that best practices and information are shared in a timely fashion.

The Charter is one of the key documents for any internal audit service and LGSS now has a common Charter for all its audit teams. The majority of the areas where I found that it was not complying with the requirements of the PSIAS have now been dealt with but there are a few aspects that still need addressing, outlined in the report below.

There remain a few additional areas of incomplete compliance with the standards and I have identified these below. The Chief Internal Auditor (CIA) and/or the Head of Audit (HoA) at each site will need to take action to implement the agreed recommendations and an action plan is included as appendix I. I have also raised some best practice suggestions with senior staff for their consideration. I am pleased to confirm, as set out in the action plan below, all my recommendations have been accepted and a timescale for their implementation has been set. My suggestions will be adopted wherever possible.

Summary findings and recommendations

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
Mission	Full	The Charter includes the newly developed internal audit mission		
Core principles of internal audit	Partial	No significant problems were identified with following the core principles and the improved audit terms of reference aids compliance. However, failing to share good practices across LGSS does not demonstrate a commitment to the principle of quality and continuous improvement, especially as some services are performing more effectively against these standards than others	Further work will be needed to embed the core principles during 2017/18, in particular ensuring that good practices are shared promptly	R1
Code of Ethics	Full	All interviewees stressed the emphasis placed on ethics by the audit teams and their independence and objectivity		
Attribute standards				
1000 Purpose, authority and responsibility	Partial	Standard 1010 The mandatory nature of the core principles must be recognised in the Charter but not all ten of the principles have been addressed	Ensure that the core principles are all included in the Charter, with an indication of how they will be delivered	R2
1100 Independence and objectivity	Full	Independence and objectivity are given great priority by all working in audit and the position of LGSS, as a separate organisation, supports their independence. However, I noted that a different version of the independence declaration is used by one section	Adopt a single, LGSS independence declaration	S1
1200 Proficiency and due professional care	Partial	Audit planning has now been greatly improved with the newly introduced terms of reference, with its focus on risk. If this is well used, the requirements of this standard will be met. In addition, an IT risk checklist has been developed but it is only in use by one team	Support and challenge audit staff to use the new terms of reference effectively, by sharing guidance and best practices Share the IT risk checklist across LGSS	R3 S2

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
1300 Quality assurance and improvement programme	Full	Quality assurance is provided by monthly management team meetings which consider performance and identify areas for improvement. However, there is no terms of reference or forward plan for the team to ensure that QAIP activities are performed as anticipated.	Develop a terms of reference and forward plan for the management team to include the QAIP	R4
		Standard 1321 One version of the new audit report template includes the statement that the audit conforms to the requirements of the ISPPIA but this statement can only be used if the QAIP supports it, which cannot be the case while some PSIAS standards are only partially met	Revise or remove the conformance statement from reports until the outcome of the QAIP supports it	R5
		LGAN p13 Although LGSS monitors performance across a number of aspects, only customer satisfaction is included in the annual report. More information would provide a richer picture of audit's activities and achievements	Include a broader suite of performance indicators in the annual report	S3
Performance standards				
2000 Managing the internal audit activity	Partial	Standard 2010 Although audit plans are risk-based, the plans presented to audit committees do not include an indication of the relative level of risk of each assignment and so its priority. In addition, annual audit plans do not make the link between audit work and delivery of organisational objectives nor do they emphasise how the service will be delivered in accordance with the Charter	Include an indication of the risk and priority of each audit assignment in the annual plan, for example, using high, medium and low	R6
			Make the link between organisational objectives and audit activities in the annual audit plan	R7
			Refer to delivery against the Charter in the annual audit plan	R8
		Standard 2050 None of the audit plans contains any information regarding reliance on other sources of assurance although this was mentioned in some audit committee discussions	Include information about other sources of assurance in the annual plan, showing what and from whom	R9
	LGAN p12 Each section uses a different version of the audit manual, providing local guidance that is not always shared. In addition, the underlying audit manual was last updated in 2013	Update the audit manual, including guidance produced by each section, and ensure that any further guidance is shared promptly	R10	

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
2100 Nature of work	Partial	Standard 2110.A1 Only one of the three sections has recently undertaken an ethics audit; a second is about to start a review and the third has not included ethics in its plans for the year meaning that ethical arrangements are not examined. Audits of ethical arrangements are a requirement of the standards and support the auditor's annual opinion	Ensure that audits of ethical arrangements are undertaken periodically, perhaps by including ethical considerations in all relevant audits	R11
		Standard 2120 Risk management facilitation is provided by the CIA which results in a potential conflict of interests when auditing risk management arrangements	Explore ways to deliver a robust, independent audit of risk management arrangements including using an external reviewer	R12
2200 Engagement planning	Full	The newly introduced terms of reference, with its focus on risk, should ensure that all the requirements of this standard are met, especially if the risk focus is reflected in work programmes	See R3	
2300 Performing the engagement	Full	Audits are performed diligently. The new terms of reference will increase the emphasis on risk and the newly appointed audit managers will ensure that audits are thoroughly supervised, something that was not always the case in the initial EQA		
2400 Communicating the results	Full	The new report template, as amended during the follow-up review to recognise good practices, meets the expectations of the standards. Standard 2410.A3 Reports do not currently contain any statement regarding limitations on their distribution or use, which is particularly important when auditing an external client. LGAN p19 Audit recommendations are prioritised as high, medium or low, but the terms used to describe these priorities (essential, important and standard) are potentially confusing to readers	Include a statement on reports to indicate that they are an aid to management and that management retains responsibility for the system of control	S4
			Review the terms used to prioritise audit recommendations	S5
2500 Monitoring progress	Full	Each section takes a different approach to follow ups, all of which comply with the standards, but which vary in the depth to which they go. Auditees are invited to audit committees to discuss progress against recommendations	Agree a unified approach to follow ups	R13

Standard	Compliance	Findings	Recommendations and suggestions	Rec no
2600 Communicating the acceptance of risks	Full	There was no evidence that risks have been left unmitigated following an audit, highlighting the importance placed by the officers at each council on audit findings		

The Chief Internal Auditor and each Head of Audit have details of the findings, standard by standard.

Findings specific to Cambridgeshire County Council

The audit section at Cambridgeshire is the most stable of the three, with no changes at the more senior level for the last 12 months. As a result, audit arrangements are more embedded within this section and audit management has had the opportunity to develop more detailed guidance for staff, including for the recently introduced terms of reference and audit report. This guidance is not always shared promptly with colleagues in the other sections, reducing their capacity to learn from each other and resulting in inconsistent approaches across LGSS.

The Cambridgeshire section is the only one without a permanent full-time head of audit, a post that has been covered by an interim working across Cambridgeshire and the Welland Consortia contracts. Greater resilience would be achieved by appointing a permanent incumbent to this position, focussing on Cambridgeshire only.

During my original review, I identified a number of areas of partial compliance with the standards, the majority of which applied across all three sections and needed to be addressed by LGSS as a whole. I was pleased to note that progress has been made to implement those recommendations which related specifically to Cambridgeshire and that none is now outstanding. Below I make one suggestion to improve practices across LGSS.

Standard	Findings	Recommendations and suggestions	Rec no
1200 Proficiency and due professional care	Standards 1210.A3 and 1220.A1 The team is to be commended for having developed an IT audit checklist and guidance to support completion of the new terms of reference but these have not been shared across LGSS	Ensure that any developments within the team are shared across LGSS promptly	CSI

Findings and recommendations specific to Milton Keynes Council

Since my visit to Milton Keynes in December 2016, the section has moved office and appointed a new full-time interim audit manager, having previously shared this post with Northamptonshire. The previous post-holder retired on 31 March and permanent recruitment to the post is underway. As a result of the interim audit manager appointment, my earlier concerns about minimal supervision, a lack of leadership and a section that had been mostly left to manage itself are being addressed and a more robust, risk-focussed, consistent approach to audit is emerging. Using the common terms of reference and report format has helped and the section is to be commended for being early adopters.

The section at Milton Keynes is, however, the least integrated of the three into the LGSS group, using the audit software differently, having a different file storage system and not always recognising or being included in developments. For example, it uses a different form of independence declaration, an earlier version of the new report format and has written its own guidance to support the audit manual. It also takes a very thorough approach to audit follow ups, which is potentially disproportionate to the risk and is not the best use of audit resources. This approach is out of line with the practice followed in most other councils, including the other two LGSS sections reviewed.

The audit committee is a crucial support to internal auditors and a committee that is robust, focussed on the key risks and is stringently independent and apolitical can greatly enhance audit's role. When I met the Chair of the Audit Committee, he expressed strongly political views about the role of the Committee which were more akin to that of a scrutiny committee and which, I understand, are shared by other members of the Committee. Moving beyond the terms of reference of the Committee, especially into political areas such as challenging Council decisions, is not good practice and reduces the effectiveness of the Committee to act as an independent and objective critical friend with regards to the operations of the business of the Council. It also reduces the capacity of the Committee to concentrate on the critical risks facing the Council.

Below I have summarised the key areas where Milton Keynes will need to demonstrate improvements to meet the Public Sector Internal Audit Standards. I have made both medium priority recommendations (R), where compliance is poor, and also best practice suggestions (S) to improve processes.

Standard	Findings	Recommendations and suggestions	Rec no
1100 Independence and objectivity	LGAN p16 The section uses a different form for declaration of interests which does not include implications for planning	Adopt the common LGSS independence declaration	MKS1
1200 Proficiency and due professional care	Standard 1210.A3 Audit staff are not expected to be IT experts, but they lacked confidence in evaluating the basic IT risks that they would encounter when carrying out audit assignments	Use the IT risk checklist	MKS2
2100 Nature of work	Standard 2110.A1 No audit of ethical arrangements is planned for 17/18 and no such audits have been carried out in the past.	Ensure that an audit of ethical arrangements is undertaken periodically, perhaps by including ethical considerations in all relevant audits	MKR1

Standard	Findings	Recommendations and suggestions	Rec no
2200 Engagement planning	Standard 2240 Not all work programmes, detailing testing to be undertaken, are reviewed before being implemented meaning that auditors may carry out testing that managers subsequently deem inappropriate to assess the risks being audited	Review and sign off work programmes during the audit planning process	MKR2
2300 Performing the engagement	Standard 2330 The section uses the Galileo system to record its audit testing. Poor cross-referencing made it difficult to follow the trail through some of the audit working papers	Improve cross-referencing, especially from the work programme to supporting documentation	MKS3
2400 Communicating the results	LGAN p20 The HoA attends CLT and SOG at which relevant risks are discussed. Weaknesses identified in audits are raised but the link to implications for the risk register is not necessarily made	Revise reporting to CLT and SOG to make links between audit findings and implications for risks overt	MKS4
2500 Monitoring progress	Standard 2500.AI The section follows up all audit recommendations regardless of priority. While this complies with the standards, it may not be the best use of audit resources and is a more detailed approach than that used by other audit and LGSS sections	Adopt the agreed LGSS approach to follow ups	MKR3

Findings specific to Northampton County Council

Since my visit to Northampton in January 2017, the section has moved out of its offices and is currently entirely agile/home-based. A new full-time audit manager has been appointed, which goes some way towards addressing my earlier concerns about minimal supervision and a lack of leadership. The post was previously shared with Milton Keynes but the CIA has now split this post to provide full-time audit management for both councils, recognising the need to improve on-site managerial supervision and leadership. However, because the team has not had a base since his appointment, and will not be moving into its new base for another month, it has proved difficult to address many of the findings of my original review, for example supervision of audits during planning.

The section has yet to adopt the common terms of reference and report format as it has spent the last few months finishing audit work that was already underway. As a result, it is currently non-compliant with many of the standards as it cannot demonstrate that audits are planned, delivered and reported on a risk basis. Audits for 17/18 will be performed using these new documents and so compliance will improve, but staff will need support and guidance in making this change to ensure that the new approaches are used effectively. Staff performance is being targeted for improvement through the Performance Appraisal process.

Below I have summarised the key areas where Northamptonshire will need to demonstrate improvements to meet the Public Sector Internal Audit Standards. I have made both medium priority recommendations (R), where compliance is poor, and also best practice suggestions (S) to improve processes. I have not included any recommendations regarding use of the new terms of reference and reporting format as these actions are already planned.

Standard	Findings	Recommendations and suggestions	Rec no
1000 Purpose, authority and responsibility	LGAN p9 There have been no reviews of audit committee effectiveness recently so the committee cannot demonstrate whether its activities are supporting the Council to improve	Carry out periodic (at least biennial) reviews of audit committee effectiveness	NR1
1300 Quality Assurance and Improvement Programme	LGAN p13 The current circumstances of the section make effective supervision difficult to deliver. The timing of my review meant that I saw no evidence of supervision of audits at the planning stage, a weakness identified during the EQA	Ensure that audits are adequately supervised at all stages, especially planning	NR2
2200 Engagement planning	Standards 2201.A1 and 2410.A3 Northampton is the only section to carry out audit work for external clients and should agree with those clients the scope of the audit and limitations on the distribution of the final report. No such limitation is currently developed	Include a statement on reports to indicate that they are an aid to management and that management retains responsibility for the system of control	NR3

Appendix I: action plan

Recommendations

No	Recommendation	Response	Responsible officer	Action date
LGSS recommendations				
R1	Further work will be needed to embed the core principles during 2017/18, in particular ensuring that good practices are shared promptly	Agreed. Examples include: The 17/18 plans now agreed provide month timings for audits that will form the basis of scheduling this across all clients and thus providing a basis for sharing expertise etc. Also whole Team meetings will take place 6 monthly and a monthly newsletter will be circulated to share relevant issues	CIA/HoA	31/08/17
R2	Ensure that the core principles are all included in the Charter, with an indication of how they will be delivered	Agreed Charter will be (re)reviewed as recommended	CIA	31/07/17
R3	Support and challenge audit staff to use the new terms of reference effectively, by sharing guidance and best practices	Agreed New ToR and report structure adopted across all sites	CIA	31/05/17
R4	Develop a terms of reference and forward plan for the management team to include the QAIP	Agreed ToR and Work Programme adopted	CIA	31/05/17
R5	Revise or remove the conformance statement from reports until the outcome of the QAIP supports it	Agreed	CIA	31/05/17
R6	Include an indication of the risk and priority of each audit assignment in the annual plan, for example, using high, medium and low	Agreed This has been adopted within Galileo for all audits	CIA	31/05/17
R7	Make the link between organisational objectives and audit activities in the annual audit plan	Agreed Annual Audit Plan updates will include this every quarter including approval of plan	CIA	31/07/17
R8	Refer to delivery against the Charter in the annual audit plan	Agreed Annual Audit Plan updates will include this every quarter including approval of plan	CIA	31/07/17
R9	Include information about other sources of assurance in the annual plan, showing what and from whom	Agreed Annual Audit Plan updates will include this every quarter including approval of plan	CIA	31/07/17

No	Recommendation	Response	Responsible officer	Action date
R10	Update the audit manual, including guidance produced by each section, and ensure that any further guidance is shared promptly	Agreed Revised Audit Manual will be launched and adopted at the next Away Day - Oct	CIA	30/10/17
R11	Ensure that audits of ethical arrangements are undertaken periodically, perhaps by including ethical considerations in all relevant audits	Agreed Audit Plans will be revised to include Ethical audits from Q2 and ToR will include ethical considerations.	CIA	31/07/17
R12	Explore ways to deliver a robust, independent audit of risk management arrangements including using an external reviewer	Agreed	CIA	31/07/17
R13	Agree a unified approach to follow ups	Agreed To be included within revised Audit Manual	CIA	30/10/17
Milton Keynes recommendations				
MKR1	Ensure that an audit of ethical arrangements is undertaken periodically, perhaps by including ethical considerations in all relevant audits	Agreed as above	MK AM	31/07/17
MKR2	Review and sign off work programmes during the audit planning process	Agreed	MK AM	31/05/17
MKR3	Adopt the agreed LGSS approach to follow ups	Agreed as above	MK AM	30/10/17
Northampton recommendations				
NR1	Carry out periodic (at least biennial) reviews of audit committee effectiveness	Agreed	CIA	30/10/17
NR2	Ensure that audits are adequately supervised at all stages, especially planning	Agreed	NCC AM	31/05/17
NR3	Include a statement on reports to indicate that they are an aid to management and that management retains responsibility for the system of control	Agreed Adopted within LGSS standard report template	CIA	31/05/17

Suggestions

No	Suggestion	Response	Responsible officer	Action date
LGSS suggestions				
S1	Adopt a single, LGSS independence declaration	Agreed	CIA	31/05/17
S2	Share the IT risk checklist across LGSS	Agreed IT Auditor circulated checklist and will appear at least annually within IA newsletter	CIA	31/05/17
S3	Include a broader suite of performance indicators in the annual report	Reports contain the level of performance reporting agreed with our clients. We do not think it appropriate to include any additional information		
S4	Include a statement on reports to indicate that they are an aid to management and that management retains responsibility for the system of control	Agreed New template includes this	CIA	31/05/17
S5	Review the terms used to prioritise audit recommendations	Agreed This was reviewed at Management Team	CIA	30/06/17
Cambridge suggestions				
CSI	Ensure that any developments within the team are shared across LGSS promptly	Agreed As well as empowering auditors to do this on any issue the monthly newsletter will prompt the team to share as well as this being both within the ToR of Management Team and an agenda item at each meeting.	CIA	31/05/17
Milton Keynes suggestions				
MK1	Adopt the common LGSS independence declaration	Agreed as above	CIA	31/05/17
MK2	Use the IT risk checklist	Agreed as above	MK AM	31/05/17
MKS3	Improve cross-referencing, especially from the work programme to supporting documentation	Agreed	MK AM	31/05/17
MKS4	Revise reporting to CLT and SOG to make links between audit findings and implications for risks overt	Agreed	MK AM	31/05/17

Appendix 2: interviewees

Person	Position	Organisation
Henry Au	CIPFA Trainee	LGSS (Northampton County Council)
Leena Bains	Auditor	LGSS (Milton Keynes Council)
Quentin Baker	Director of Law, Property and Governance/Monitoring Officer	LGSS
Peter Barker	Assistant Director Specialist Public Health	LGSS (Northampton County Council)
Gillian Beasley	Chief Executive	Cambridgeshire County Council
Paul Blantern	Chief Executive	Northampton County Council
Matt Bomer	Director of Finance	LGSS
Sharon Bridglalsingh	Monitoring Officer	Milton Keynes Council
Leigha Britnell	Principal Auditor	LGSS (Milton Keynes Council)
Andrew Cardoza	Director	KPMG
Ellie Clarke	Trainee Auditor	LGSS (Cambridgeshire County Council)
Paul Clarke	Audit Manager	LGSS (Northampton County Council)
Debbie Collins	Corporate Debt Manager	Milton Keynes Council
Dianne Crabb	Senior Auditor	LGSS (Cambridgeshire County Council)
Sara Essex	Counter Fraud Manager	LGSS
Ian Farrar	Head of IT	LGSS
Cllr Peter Geary	Audit Committee Chair	Milton Keynes Council
Laurie Gould	Monitoring Officer	LGSS (Northampton County Council)
Stephen Gresham	Senior Auditor	LGSS (Northampton County Council)
Tim Hannam	Deputy s151 officer	Milton Keynes Council
Neil Hunter	Head of Audit	LGSS (Cambridgeshire County Council)
Kasia Jaczewska-Culley	Trainee Auditor	LGSS (Northampton County Council)
Emma Jones	Trainee Auditor	LGSS (Cambridgeshire County Council)
Mairead Kelly	Audit and Risk Manager	LGSS (Cambridgeshire County Council)

Person	Position	Organisation
Patricia Kilker	Principal Auditor	LGSS (Northampton County Council)
David Lamb	Auditor	LGSS (Milton Keynes Council)
Damon Lawrenson	S151	LGSS (Northampton County Council)
Hazel Lewis	Head of IT	Milton Keynes Council
Jeanette Lynn	Senior Auditor	LGSS (Northampton County Council)
Nicky McLaughlin	HR Policy and Projects Advisor	LGSS (Northampton County Council)
Chris Malyon	Deputy Chief Executive/s151 officer	Cambridgeshire County Council
Ashling Manning	Trainee Auditor	LGSS (Cambridgeshire County Council)
Janet Maulder	Head of HR Advisory Services East	LGSS (Cambridgeshire County Council)
Steve Mangan	Audit and Risk Manager	LGSS (Northampton County Council)
Carole Mills	Chief Executive	Milton Keynes Council
Mark Nicholson	Principal Auditor	LGSS (Milton Keynes Council)
Sue Norman	Senior Auditor	LGSS (Cambridgeshire County Council)
Andrew Nixon	Interim Manager, residential unit	Cambridgeshire County Council
Minashi Patel	Auditor Principal Auditor	LGSS (Milton Keynes Council) LGSS (Northamptonshire County Council)
Cheryl Perry	Principal Auditor	LGSS (Milton Keynes Council)
John Pettitt	Risk Manager	LGSS
Barbara Plumb	Business Support Manager, Corporate Parenting	Cambridgeshire County Council
Barry Pryke	Manager, External Audit	BDO
Mirko Rados	Information Governance Officer	Northampton County Council
Paul Sayers	Auditor	LGSS (Milton Keynes Council)
Cllr Michael Shellens	Chair of Audit and Accounts Committee	Cambridgeshire County Council
Leroy Small	Auditor	LGSS (Milton Keynes Council)
Paul Strangward	Deputy Head of Audit	LGSS (Milton Keynes Council) LGSS (Northamptonshire County Council)
Steve Tinkler	Interim Audit Service Manager	LGSS (Milton Keynes Council)

Person	Position	Organisation
David Watson	Chair of Audit Committee	LGSS (Northampton County Council)
Mark Whitby	Head of Pensions	LGSS (Northampton County Council)
Duncan Wilkinson	Chief Internal Auditor	LGSS
Richard Wood	Principal Auditor	LGSS (Cambridgeshire County Council)
Michelle Wright	Transformation Manager	Cambridgeshire County Council