

## AUDIT COMMITTEE - 28 NOVEMBER 2014

<b>Title of paper:</b>	<b>INTERNAL AUDIT WORK PLAN FOR EAST MIDLANDS SHARED SERVICES</b>	
<b>Director(s)/ Corporate Director(s):</b>	Geoff Walker Acting Director of Strategic Finance	<b>Wards affected: All</b>
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<b>Other colleagues who have provided input:</b>		
<b>Recommendation(s):</b>		
<b>1</b>	Note the outcome from 2013/14 audit work planned and completed to date	
<b>2</b>	Note the updated EMSS 2014/15 Audit Plan	

### **1. REASONS FOR RECOMMENDATIONS**

This report follows the report presented to the 28 February 2014 Audit Committee and outlines the work undertaken to date by Nottingham City Internal Audit (NCCIA) for East Midlands Shared Services (EMSS), and the Internal Audit Plan for EMSS 2014/15.

### **2. BACKGROUND**

- 2.1. Nottingham City Council (NCC) and Leicestershire County Council (LCC) formed a partnership (EMSS) in 2011 to deliver HR, payroll and finance transactional shared services. It is supported by state of the art technology and intends to offer a sustainable solution through new ways of working to deliver more efficient and cost effective services. It will also form the base from which other services can be added and other councils taken on board.
- 2.2. The change to EMSS requires significant changes in both organisations operational procedures and culture.
- 2.3. Both organisations have agreed that NCCIA will conduct the required audit project work both during the transition and when the service is in full operation.
- 2.4. The Committee's Terms of Reference include receiving reports on the work planned and undertaken by NCCIA.
- 2.5. The Committee has considered and endorsed the work planned for EMSS at previous meetings.

2.6. **Appendix 1** updates the Committee on the outcomes from the work undertaken regarding the 2013/14 EMSS audit plan (Annex A) and presents the updated 2014/15 audit plan (Annex B).

3. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

4. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

Audit Committee 28 February 2014 - Internal Audit Work Plan for East Midlands Shared Services

## EMSS Internal Audit Outturn 2013/2014 and Audit Plan 2014/2015

### A EMSS – 2013 /14 Annual Outturn Summary

#### **A1 - Background**

- 1.1 Nottingham City Council and Leicestershire County Council formed a partnership, East Midlands Shared Services (EMSS), in 2011 to deliver HR, payroll and finance transactional shared services. The change to EMSS required significant changes to both organisations operational procedures and culture. Both organisations agreed that Nottingham City Internal Audit Services would conduct the required Internal Audit (IA) work both during the transition and when the service was in full operation.
- 1.2 Where practicable, work is confined to the operations of EMSS, with the client internal audit sections responsible for transactions up to them being received by EMSS and after the transactions have been completed in accordance with the contractual arrangements in place.
- 1.3 EMSS IA work is conducted for the Head of EMSS, who is responsible for the management response and agreeing recommendations. IA plans and progress reports and the Head of Internal Audit's annual report are received periodically by the EMSS Operations Board. Client organisations receive assurance regarding the governance arrangements in place from EMSS via the organisation's annual report.

#### **A2 - Nottingham City Council Internal Audit (NCCIA)**

- 2.1 NCCIA is the designated Internal Audit provider for EMSS. The Head of Internal Audit (HoIA) has established all appropriate standards and processes to comply with the governance requirements set down in the CIPFA Statement on the role of the Head of Internal Audit. NCCIA policies, plans and performance are effectively scrutinised throughout the year including, within an approved timetable of meetings, by the City Council's Audit Committee. The HoIA meets regularly with EMSS's management team and provides details of findings and assurance to its Operations Board. Annually, the HoIA provides an opinion to the Operations Board for inclusion in the Head of EMSS's annual report. Internal Audit EMSS plans and progress against these plans are also reported periodically to the LCC Corporate Governance and NCC Audit Committees.
- 2.2 The service has adopted, and complies with the principles contained in the Public Sector Internal Audit Standards (PSIAS) and has met the requirements of the Account and Audit Regulations 2011 and associated regulations.

### **A3 - EMSS Audit Plan Outturn 2013/14**

- 3.1 EMSS managers are responsible for ensuring that proper standards of internal control operate within their organisation. Internal Audit reviews these controls and gives an opinion in respect of the systems and processes put in place.
- 3.2 The 2013/14 Audit Plan, as agreed by EMSS and reported to LCC and NCC governance committees, has been completed in accordance with the professional standards set for the service.
- 3.3 The Internal Audit service has undertaken reviews of the internal control procedures in respect of the key systems and processes run by EMSS on behalf of itself and its clients. The planned work has been supplemented by ad hoc reviews and requests for audit input by EMSS management.
- 3.4 Reports in respect of all reviews have been issued to the responsible colleagues, together with recommendations and agreed action plans. Each report included a level of assurance that can be taken from its findings.
- 3.5 A summary of the work completed is attached at **Annex A** which shows a limited assurance being given in the Payroll, Accounts Receivable and Accounts Payable audits. The main reason for these assurance levels was Internal Audit's inability to obtain full sets of systems data suitable to provide appropriate samples for testing in regard to the accuracy and integrity of transactions. Since our reports were issued LCC IA have undertaken further work for LCC and we are awaiting the outcome of this work.

### **A4 - EMSS Head of Internal Audit Opinion - 2013/14**

2013/14 saw significant change, challenges and risks to the EMSS partnership with the operational commencement of the delivery of HR and financial services for LCC and NCC. The HoIA has continuously reviewed the risks associated with EMSS operations and has allocated the necessary resources, via the audit plan, to form his opinion on its governance arrangements. In forming his opinion the HoIA has reviewed all the IA reports issued in 2013/14 and drawn upon other sources of assurance from key colleagues in both client organisations and EMSS to help and assess the key control risks to the partnership's objectives. The HoIA has concluded that although no systems of control can provide absolute assurance, nor can IA give that assurance, he is satisfied that, on the basis of the audit work undertaken during the 2013/14 financial year, that there have been no significant issues (as defined in the CIPFA Code of Practice) discovered in the Internal Audit work. However, on the basis of the audit work undertaken during the 2013/14 financial year covering financial systems, risk and governance, the HoIA is able to conclude that a limited level of assurance can be given that internal control systems are operating effectively within EMSS.

## **B Internal Audit Plan 2014/15**

### **B1 - Background**

- 1.1 Nottingham City Internal Audit Services are the appointed Internal Auditors for EMSS.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) definition of Internal Audit (IA) is as follows:
- 1.3 “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 1.4 Consequently, IA is an integral part of the EMSS’s Corporate Governance Framework and gives assurance complementing that given by external review bodies including external audit.

### **B2 - The Role of IA**

- 2.1 IA is an independent, objective assurance and consulting activity designed to promote the highest levels of financial management and probity across the enterprise.
- 2.2 A key factor in the effectiveness of IA is that it is independent. To ensure this independence, IA operates within a framework that allows:
  - Unrestricted access to senior management
  - Reporting in its own name
  - Segregation from line operations
- 2.3 Each audit or piece of work undertaken has a clear scope and objectives. Any audit undertaken within EMSS is conducted under the framework of an agreed audit programme, with a clearly defined scope agreed with the partner organisations. This is of particular importance in the management of consultancy where the respective roles, inputs and outputs are clearly defined and the independence of auditors maintained.
- 2.4 The IA Service requires unrestricted coverage to EMSS activities and unrestricted access to all employees’ records and assets deemed necessary to fulfil this function.

### **B3 - The Audit Planning Process.**

- 3.1 The work is targeted in order to address the key risks to the EMSS strategic objectives and other priorities of the enterprise. The main elements used in constructing the plan have been agreed with EMSS management.
- 3.2 The unique value that the professional IA function provides to EMSS is objective assurance on the effectiveness of the governance, risk management and internal control processes. Management is responsible for the strategic and operational elements of these processes but need independent assurance that they are operating effectively and advice in respect of their improvement.
- 3.3 IA also helps EMSS to achieve its key priorities. The service does this by helping to promote a secure and robust internal control environment which enables a focus to be maintained on these key priorities.
- 3.4 In accordance with this principle the Audit Plan has been devised following a risk based approach using the following sources:
  - The need to provide effective and efficient services to the client base and give appropriate assurances to clients and external auditors
  - Consultation with management
  - IA risk assessment informed by cumulative audit knowledge and experience and meetings with senior colleagues
  - Professional judgement including the risk of fraud and error
- 3.5 IA will also deliver work on the core financial systems to provide assurance that the basic governance and control arrangements are continuing to operate effectively. The scope of audits will be agreed with management and the IA Plan can be similarly developed to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified.
- 3.6 The EMSS IA Plan 2014-15 is attached as **Annex B**.

### **B4 - Standards**

- 4.1 IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The service has internal quality procedures in place and is ISO9001:2008 accredited. It has adopted the standards contained in the PSIAS and has fulfilled the requirements of the Account & Audit Regulations 2011 and associated regulations in respect of the provision of an IA service.
- 4.2 The EMSS Operations Board will be provided with regular monitoring reports of work undertaken against the Plan. This will help inform the Board's understanding of EMSS's Corporate Governance Arrangements and their effectiveness.

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# East Midlands Shared Services

## 2013 / 2014

### Internal Audit Outturn against Plan



**ASSURANCE RELATED AUDITS 2013/14**

<b>Description</b>	<b>Outline / Service Delivery</b>	<b>Assurance / Status</b>
Payroll Audit	System Audit / Employee Service Centre	Limited
Pensions Audit	System Audit / Employee Service Centre (NCC only)	Significant
Accounts Receivable Audit	System Audit / Finance Service Centre	Limited
Accounts Payable Audit	System Audit / Finance Service Centre	Limited





**EMSS - BUSINESS AUDITS**

Audit	Description / Business Development Service Delivery	Assurance/ Status
EMSS IT Audit	<ul style="list-style-type: none"> <li>• Review of hosting and associated IT configurations</li> </ul>	Significant
Contingency Planning	<ul style="list-style-type: none"> <li>• Review initial Contingency arrangements</li> <li>• Review Business Continuity Plans</li> </ul>	Significant Significant
Reviews requested by the Head of EMSS	<ul style="list-style-type: none"> <li>• Systems Administration Team</li> <li>• BACS (June 2013)</li> <li>• Duplicate Payments NCC</li> </ul>	Limited Significant Significant
Reviews requested by Section 151 Officers	<ul style="list-style-type: none"> <li>• LCC                             <ul style="list-style-type: none"> <li>○ Waste Contractor</li> </ul> </li> <li>• NCC                             <ul style="list-style-type: none"> <li>○ Accounts Receivable</li> </ul> </li> </ul>	Significant  Significant
Velos-IT contract	<ul style="list-style-type: none"> <li>• Review performance in line with the contract with Velos-IT</li> </ul>	Significant



Definitions of Assurance Levels Given

<b>High Assurance</b>	High assurance that the system of internal control is designed to meet the organisation’s objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.
<b>Significant Assurance</b>	Significant assurance that there is a generally sound system of control designed to meet the organisation’s objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.
<b>Limited Assurance</b>	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation’s objectives at risk in the areas reviewed.
<b>No Assurance</b>	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation’s objectives in the areas reviewed.



# East Midlands Shared Services

## 2014 / 2015

### Proposed Internal Audit Plan



### ASSURANCE RELATED AUDITS 2014/15

Description	Outline / Service Delivery	Days	Start / Status
Payroll Audit	System Audit / Employee Service Centre	20	Oct 14
Accounts Receivable Audit	System Audit / Finance Service Centre	15	Oct 14
Accounts Payable Audit	System Audit / Finance Service Centre	18	Oct 14

### EMSS - BUSINESS AUDITS

Audit	Description / Business Development Service Delivery	Days	Start / Status
EMSS IT Audit	<ul style="list-style-type: none"> <li>• Systems Administration Follow up</li> <li>• Velos-IT contract Follow up</li> <li>• IT Audits</li> </ul>	5 3 10	Oct 14 Nov 14 As Commissioned
Targeted Risk Based Reviews	<p>EMSS income control systems</p> <p><u>Potential Issues Brought Forward</u></p> <ul style="list-style-type: none"> <li>• EMSS payments and income from clients</li> <li>• Teachers Pensions – Follow up as required</li> <li>• Payroll QA</li> <li>• Overpayments                             <ul style="list-style-type: none"> <li>○ Skills</li> </ul> </li> </ul>	40	As Commissioned

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Audit	Description / Business Development Service Delivery	Days	Start / Status
	<ul style="list-style-type: none"> <li>○ Academy interface</li> <li>● Recruitment Team                             <ul style="list-style-type: none"> <li>○ CRB checks</li> <li>○ QA</li> </ul> </li> <li>● File Management</li> <li>● External Customers / Academies – SLA's</li> <li>● Duplicate Payments NCC &amp; LCC</li> </ul>		
Reviews requested by Section 151 Officers	<ul style="list-style-type: none"> <li>● LCC</li> <li>● NCC</li> </ul>	20  20	As Commissioned

**POST LIVE REVIEWS**

Audit	Description / Business Development Service Delivery	Days	Start / Status
	<ul style="list-style-type: none"> <li>● Review SLA and contractual arrangements (Brought Forward)</li> </ul>	1	Mar 15  TBC