



CORPORATE GOVERNANCE COMMITTEE – 20 MAY 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE - PROGRESS AGAINST 2023-24
PLAN & REVISED ANNUAL PLANNING METHODOLOGY

Purpose of Report

1. The purpose of this report is to:
 - a. Provide a summary of work undertaken during the period 13 January to 19 April 2024.
 - b. Report on progress with implementing high importance (HI) recommendations at 19 April 2024
 - c. Introduce the revised planning methodology being developed from April 2024
 - d. Seek Committee delegation to the Director of Corporate Resources to agree by the end of May the 2024/25 Internal Audit Plan with Chief Officers and email to members for approval.

Background

2. The Public Sector Internal Audit Standards (the PSIAS) require the Head of Internal Audit Service (HoIAS) to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the Council's agenda and priorities. The scope of internal audit activity in the plan should be wide ranging, enabling the HoIAS at the end of the year in question, to produce an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment.
3. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the system of internal audit, with a specific function to consider Internal Audit Plans. Internal audit is an essential component of the Council's corporate governance and assurance framework.

Summary of work undertaken

4. **Appendix 1** provides a summary of work undertaken between 13 January and 19 April 2024. For assurance audits (pages 1 to 4 of Appendix 1) an 'opinion' is mostly given, i.e. what level of assurance can be given that material risks are being managed. There are usually four levels: full; substantial; partial; and

little. 'Partial' ratings are normally given when the auditor has reported at least one high importance (HI) recommendation i.e. where the risk would continue to exist if the recommendation was not implemented. An agreed HI recommendation denotes that there is material risk exposure. It is particularly important that management quickly addresses those recommendations denoted as HI and implements an agreed action plan without delay. HI recommendations/negative assurance ratings are reported in summary to the Committee and continue to be reported until the HoIAS is satisfied that actions have been implemented. Occasionally, the auditor might report several recommendations that individually are not graded HI but collectively would require a targeted follow up to ensure improvements have been made. Until a report has been issued in draft and there's some certainty that the grading will not change, some audits are currently showing as to be confirmed 'TBC'

5. LCCIAS also undertakes consulting/advisory type audits see Appendix 1 (pages 5 to 7). Details, including where these incur a reasonable amount of resource, are also included. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes, and policies. For some consulting audits, the 'value added' by undertaking those audits is shown. During this period, the ICT Auditor has either undertaken or overseen a considerable number of reviews of higher risk Information Security Risk Assessments (ISRA). Grants that were certified during the period also appear on page 7.
6. Pages 8 to 10 of Appendix 1 provide information on: -
 - a. Where the LCCIAS either undertakes itself (or aids others) with unplanned investigations. These are only reported to the Committee once the final outcome is known to avoid jeopardising investigations by others e.g. the Police. This period, six investigations were concluded. The Council's Legal, People and Insurance Services are notified where appropriate.
 - b. 'Other control environment/assurance work', which gives a flavour of where internal auditors are utilised to challenge and improve governance, risk management and internal control processes which ultimately strengthens the overall control environment.
 - c. Where LCCIAS auditors are utilised to undertake work assisting other functions. There is Internal Audit representation on several corporate project groups.
7. To remain effective, and either undertake audits or feed information and guidance to others, LCCIAS staff regularly attend online training and development events and both midlands and national internal audit, risk and counter fraud network events. A summary of the events attended during the last quarter is shown on pages 11 and 12 of Appendix 1.
8. At its meeting on 26 January 2024, the Committee was informed that visibility of amendments to original planned work was limited. The practice of adding audits either at client request or, more likely responding to investigations and

other reactive work without following a consistent risk assessment has continued. Appendix 1 contains details on audit work undertaken since the middle of January. It reveals a considerable amount of work that has not previously been contained in an audit plan: -

- 20 Assurance audits
 - 1 Consulting audit
 - 6 Information Security Risk Assessments (ISRA's)
 - 3 Grant certifications
 - 5 Investigations
 - 2 Other control environment/assurance work
 - 2 Work assisting other functions

Whilst the audit plan must be flexible to adapt to the changing priorities of the Council and risks arising, a return to a more formal audit planning process is vital so that future reports could be adapted to provide greater visibility of progress and actions. This is further explained from paragraph 20 onwards below.

Progress with implementing HI recommendations

9. As mentioned in paragraph 4, the Committee is also tasked with monitoring the implementation of HI recommendations. **Appendix 2** details HI recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Committee before or where an update has occurred to a previously reported recommendation are shown in **bold font**. Entries remain on the list until the Auditor has confirmed (by specific re-testing where applicable) that action has been implemented.
10. To summarise movements within Appendix 2: -
 - a. **New**
 - i. Children and Family Services (4x Maintained schools) – predicted deficits.
 - ii. Not reported to the January Committee - Children and Family Services (3x Maintained schools) – 2x predicted deficits and 1x accounting returns.
 - b. **In progress (earliest date reported first & number of extensions)**
 - i. Consolidated Risk - Surveillance and CCTV Audit (5)
 - ii. Environment & Transportation - Highways works Bond Reimbursement (2)

c. Closed/No longer relevant.

- i. Not reported to the January Committee - Children and Family Services (3x Maintained schools) – 2x predicted deficits and 1x accounting returns.

Constructing the 2024-25 risk-based plan – sources of information

11. The PSIAS advise that when constructing risk-based plans, the HoIAS should consider the organisation's risk management framework, which at the County Council is overseen by the HoIAS. To conform to the PSIAS, this potential impairment to independence and objectivity is included within the Internal Audit Charter along with controls that would need to be applied if an internal audit of the framework was undertaken.
12. Overseeing that the corporate framework is being consistently applied and producing the Corporate Risk Register for review by Chief Officers and this Committee, ensures the HoIAS is kept up to date with the risk environment. This increases the HoIAS' confidence in the Council's approach to identifying, evaluating, and managing risk, which in turn allows for greater reliance to be placed on management's risk assessments and consequently internal audit resource to be better targeted towards higher risks and flexed in accordance with major shifts in the risk environment.
13. The HoIAS is also responsible for developing and promoting the Council's approach to countering the risk of fraud and corruption. A significant amount of work continues including reviews, revisions and developments of a suite of anti-fraud and corruption policies and procedures (due to be revised in October) and guidance and tools which enables the Council to report conformance to the principles of the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014). A fraud risk assessment is conducted biennially which facilitates targeted counter fraud audits and related activity. Counter fraud campaigns are planned which may lead to investigations.
14. The HoIAS oversees the management of the Council's insurance function. This adds to the compendium of knowledge on the Council's overall risk portfolio and can give an indication as to where internal audit assurance may be needed e.g. to reduce the possibility of claims occurring.
15. The HoIAS chairs a group of service experts (including external professions) set up to evaluate risks to the Council's owned and procured properties and persons that occupy them. The scope of the group's work has increased such that specific risks relating to design and build, procurement, health and safety and compliance are routinely discussed, which adds to the HoIAS knowledge of risk management.
16. The HoIAS is responsible for compiling the Annual Governance Statement (AGS). This involves reviewing Chief Officers' annual self-assessments of their department's governance and assurance arrangements. This can provide good information on other forms of assurance. The PSIAS require that the risk-based plan should explain the HoIAS' approach to using other sources of

assurance when forming the annual internal audit opinion and any work required by the Council's Internal Audit Service (LCCIAS) to place reliance upon those other sources.

17. Departments' Business Plans for 2024-25 will be reviewed for new or emerging service changes or risks.
18. Notwithstanding utilising 'new' or updated information gathered from the sources, the HoIAS should also plans audits and undertakes other work that is either outside of, or 'cuts across' risk register boundaries, for example:
 - a. audits each year on the key financial and ICT systems which the Council's External Auditor may use in its judgement of risk when planning the annual audit of the financial accounts.
 - b. conducting specific follow up audits where high importance (HI) recommendations have previously been made to ensure action has been taken and the risk has been mitigated.
 - c. external horizon scanning both from professional risk publications and the experiences of peer HoIAS in internal audit networks.
 - d. certifications of grants and returns for government departments.
 - e. co-ordinating requests for information to support the National Fraud Initiative (NFI) for the Cabinet Office and ensuring any data matches are investigated.
 - f. general research and advice on governance, risks, and controls; researching County related emerging issues, and consulting with departments and reporting back to them, the Director of Corporate Resources, other Chief Officers, and the Corporate Governance Committee.
 - g. a contingency is planned for any unplanned audit work, including investigations and other unknowns such as staff vacancies arising or job overruns because of unforeseen findings.
19. Following guidance issued by CIPFA, the HoIAS is keen to review the Council's overall assurance framework in 2024-25 with the intention of building an assurance map that can be further utilised in discussions on where Internal Audit assurance/resource is best utilised.

Change to constructing the Internal Audit Plan for 2024-25 (and beyond)

20. Whilst gathering all the above information is necessary to understanding the overall audit 'universe' the HoIAS recognises that there needs to be a return to a more structured model to determine which audits take priority, how often they're undertaken and be able to track in year changes and movements, and whether they should be afforded higher priority over 'originally' planned audits. This should provide assurance that scarce resource is being targeted to the highest priority areas.

21. The HoIAS and Audit Managers have restored and are continuing to develop a previously used audit needs assessment model. An extract of the model is shown in Appendix 3. The scores and outcomes are for illustrative purposes only.
22. For each audit entity/area the model captures information on: -
- a. the relevant Audit Manager and department or whether the audit crosses boundaries (consolidated risk),
 - b. the entity/audit description
 - c. days allocated. This important part of the model remains under consideration, but the principles are that it will need to balance to the total audit resource available and will change depending on the overall risk profiles as audits are added or deferred. Additionally, the model will need to accommodate the requirements to manage and undertake functions additional to internal audit (risk management, counter fraud, AGS and insurance) along with a suitable contingency useable for example in reacting to investigations or perhaps managing longer term staff absences.
 - d. A theme to allow some benchmarking and rationale for inclusion.
 - e. Impact and likelihood scores gained from department and corporate risk registers. Given the HoIAS has oversight of this corporate framework, these scores will be regularly reviewed and revised accordingly which again may alter the risk profile.
 - f. Materiality and exposure scores are mostly driven by what is known from past audits or changes e.g. forthcoming significant changes in management or reductions in staffing would likely increase exposure
 - g. A calculated audit risk score which in turn auto-populates a frequency for the audit, which is currently set at annually, at least once in 2 years, at least once in 4 years and if a very low risk, then a self-assessment.
 - h. A facility to 'override' (amend) the pure mathematical outcome, for instance a grant audit may return a low score, but it must be certified annually, so it can be amended.
 - i. Overrides are auto-flagged so that they are visible and transparent since a reason must be given.
 - j. Finally, and still being developed, a three-year picture of when audits are due – in effect a strategic plan.
23. The Director of Corporate Resources has approved both the adoption of the model and to continuing its further development, whilst continuing to explore audit case management system alternatives. The recently conducted External Quality Assessment reflected that, *'Further development of this approach...would enhance internal audits' ability to demonstrate a commitment to helping the Council achieve its objectives'*. Next, the model will be shared with Chief Officers and their management teams, and they will be required to review the accuracy of the current scores and frequencies and inform the HoIAS of any new or forthcoming entities that need to be added (or others that can be removed).

24. As there isn't a specific cut off for internal audit work (unlike the external audit of the financial statements) several 2023-24 audits are still in train to some extent and some Department Management Teams and Assistant Directors have provided areas where they would like assurance to be provided, and so some 'new' audits can start. A baseline annual plan for 2024-25, and the start point of regular/continuous update of the risk model, is scheduled to be agreed with the Director of Corporate Resources and emailed to members for approval...
25. The HoIAS continuously reviews how the LCCIAS team can better utilise its resources and re-imagine delivery. This includes: -
- a. encouraging agility and accountability.
 - b. challenging the operating model based on how people work best e.g., working remotely (see references to hybrid team working in Appendix 1 last page);
 - c. accelerating digital and analytics
 - d. understanding better what stakeholders will value and developing and tailoring approach/delivery based on those insights.
 - e. promoting adaptability, which is essential.
 - f. procuring 'specialists' in complex technical audits.
26. The Committee will continue to receive progress reports at its regular meetings based on the new methodology and detailing the audits completed, changes to the plan and reasons, what opinion was reached and summaries of any high importance recommendations.
27. The 2024-25 plan will aim to give the optimum audit coverage within the resources available. Though it will be compiled and presented as a plan of work, it must be recognised that it will only be a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes in the Council's business, risks, operations, programs, systems, and controls.

Resource implications

28. A Senior Auditor who led on the corporate risk management arrangements, left the Council in February. This has affected internal audit delivery but also the HoIAS had to undertake the risk management update cycle for this Committee which has highlighted a single point of failure.
29. Once the planning model is bedded in, the HoIAS will undertake a review of resources.

Equality and Human Rights Implications

30. There are no discernible equality and human rights implications resulting from the audits listed.

Recommendations

31. That the updates on progress on work undertaken and the implementation of high importance recommendations be noted.
32. That the revised annual planning methodology from April 2024 be noted
33. That the Committee provides delegation to the Director of Corporate Resources to agree by the end of May the 2024/25 Internal Audit Plan with Chief Officers and email to members for approval.

Background Papers

The Constitution of Leicestershire County Council

Reports to the Corporate Governance Committee on 26 May 2023 – Internal Audit Service Plan and Progress:

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6844&Ver=4>

Circulation under the Local Issues Alert Procedure

None.

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Appendices

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| Appendix 1 | Summary of Internal Audit Service work undertaken between 13 January and 19 April 2024. |
| Appendix 2 | High Importance recommendations at 19 April 2024 |
| Appendix 3 | Extract from the annual planning model revised from April 2024 |