



CORPORATE GOVERNANCE COMMITTEE – 12 JUNE 2020
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
INTERNAL AUDIT SERVICE PROGRESS REPORT

Purpose of Report

1. The purpose of this report is to:
 - a. provide a summary of work conducted during the period 18 January to 29 May 2020;
 - b. report on progress with implementing high importance recommendations;
 - c. provide information on how the coronavirus has affected the Internal Audit Service
 - d. approach to preparing the internal audit plan for 2020-21

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the internal audit function, which is provided by Leicestershire County Council's Internal Audit Service (LCCIAS). To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan.
3. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are of a 'consulting' type, which are primarily advisory and guidance to management. These add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Also, unplanned 'investigation' type audits may be undertaken. Internal audit staff also undertake other control environment related work.

Summary of progress against the Internal Audit Plan 2019-20 and reactive work begun in 2020-21

4. **Appendix 1** provides a summary of work undertaken between 18 January to 29 May 2020.

5. For assurance audits (pages 1 and 2 of Appendix 1) an 'opinion' is 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 recommendation, which would be reported to this Committee and a follow up audit would ensue to confirm action had been implemented. Occasionally, the auditor might report a number of recommendations that individually are not graded high importance but collectively would require a targeted follow up to ensure improvements have been made.
6. LCCIAS also undertakes consulting/advisory type audits (pages 3 and 4). Where these incur a reasonable amount of resource, they 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.
7. Pages 5 to 7 of Appendix 1 provides information on: -
 - a. Where LCCIAS either undertakes itself or aids others with unplanned investigations. These are not reported to the Committee until the outcome is known. This period, three investigations were concluded.
 - 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

For this report, further detail is provided on examples of 'b' & 'c', due to the effect of the coronavirus on the Internal Audit Service. See paragraph 11 onwards.

8. In order to remain effective, LCCIAS staff regularly attend training and development events and both midlands and national internal audit network events. A summary of events attended during the last quarter is shown on page 8.

Progress with implementing high importance recommendations

9. The Committee is also tasked with monitoring the implementation of high importance recommendations. **Appendix 2** details high importance (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 LCCIAS has identified that some 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) that action has been implemented.

10. To summarise movements within Appendix 2: -
- a. **New**
 - i. Consolidated risk – Records management
 - ii. Children and Family Services – Early years funding
 - iii. Adults & Communities - Fee review implementation
 - b. **In progress**
 - i. Children & Family Services - Burbage CE Infant School (extended)
 - ii. Corporate Resources - Property Contracts Awards (extended)
 - iii. Corporate Resources - Leicestershire Schools Music Service (extend recommendation 4)
 - c. **Closed**
 - i. Corporate Resources - Recommendations 1 – 3 of Leicestershire Schools Music Service
 - ii. Consolidated risk – Recommendation 1 of records management
 - iii. Adults & Communities - Fee review implementation

The impact of the coronavirus on the Internal Audit Service

11. The Midlands Heads of Internal Audit Group met at the end of February and discussed the potential impact of the coronavirus pandemic on its business continuity and resilience plans, and the potential impacts of increased risks of service failures and weakened internal control etc. Internally, at the same time the Head of the Internal Audit Service (HoIAS) reviewed the Service's business continuity plan to identify whether there was potential to release some staff from what would be classed as a non-essential service should the virus escalate.
12. The Service has long been equipped for and is comfortable working in a mobile and flexible manner, either from home (or other sites), so immediate continuity and sustainability wasn't an issue. Nevertheless, on the announcement of the national lockdown made by the Prime Minister, the Service was affected from an immediate loss of engagement with some auditees, along with the need to display an empathic understanding of the significant difficulties operational and corporate services were now facing.
13. The Service's management team reviewed the internal audit plan and reached decisions to continue, pause or stop activities. Due to the necessary change in priorities to respond to the crisis brought about by the pandemic, there remain several audits where responses to draft reports are still outstanding. The HoIAS continues to follow up obtaining the outstanding responses and is mindful that the matters raised (especially any high importance recommendations) will need to be re-considered in terms of how the service

that was previously audited will plan to recover, recognising that some of the recommendations are likely to change significantly to reflect the outcomes of the current crisis.

14. There was a purposeful shift towards providing managers with an offer to quickly review any planned (or already implemented by necessity) changes to alternative service delivery models which might have implications for the Council's control environment, and to provide advice in terms of fraud mitigation. The Service has also become more agile using available technologies (e.g. shared screens and video calling) to continue its work following professional guidance and is pushing ahead on the use of a data analytics tool. The HoIAS and others in the team routinely share ideas and heed advice amongst colleagues in other local authorities and from CIPFA and the Institute of Internal Auditors.
15. There was also the opportunity to provide internal audit resource to critical Council services that for reasons of either extra demand (increased business requirements) or reduced resource (staff absent or self-isolating) would benefit from some additional resource redeployment. Since the end of March/beginning of April, six Internal Audit Service staff were redeployed to the Pensions Service (4) and payments relating to adult social care functions (2). Those staff have shown tremendous aptitude to learn and deliver operational functions in a very short amount of time. Continuation of redeployment will be kept under review as services begin to recover. It is expected that the internal audit service will continue to work with departments to ensure risks are being identified, considered and mitigated.
16. Between 2nd March and 29th May, 209 days have been recorded undertaking covid-19 related work. This can be broken down as: -
 - a. Redeployed to critical services
 - i. Pensions Service – 97 days
 - ii. Payments relating to adult social care functions – 46 days
 - b. Reviewing alternative service delivery – 66 days

Designation	Pensions	ASC payments	Alternative service delivery	Total days
HolAS*	-	-	33	33
Audit Managers	-	-	8	8
Senior Auditors	-	-	25	25
Auditors	65	-	-	65
Assistant auditors	32	46	-	78
Total	97	46	66	209

*The HoIAS also oversees the Council's insurance function which has been heavily involved providing advice and information on alternative service delivery proposals. Considerable time has also been spent in discussion with

senior management to ensure the delivery of the Service is in line with the Council's response and recovery plans to the Coronavirus pandemic.

Pages 6 & 7 of Appendix 1 provide more detail of the work undertaken

17. Members can take assurance that the impact on the County Council's internal audit function and the approach taken to utilising resources mirrors most Midlands' County internal audit functions.

Approach to developing the Internal Audit Plan 2020-21

18. Prior to the Coronavirus pandemic, work had begun to draft an Internal Audit Plan for 2020/21. However, the impact of the crisis on all Council services quickly halted the finalisation of the Plan. Most services are now beginning to plan to develop a new 'normal' and with consideration to the response phase, most HoIAS' are developing a shorter six-month plan with an aim to review this after three months to ensure this is kept current and is reflective of the fast-changing circumstances. The HoIAS will discuss this approach with the Director of Corporate Resources at the end of June. In the meantime, there will be virtual meetings with management teams which will begin to identify proposed service delivery changes both from interim recovery plans and associated risk registers. The Internal Audit Plan for the remainder of 2020-21 will be brought to the Committee at its meeting on 24 July 2020.
19. The HoIAS is keeping abreast of how the LCCIAS team will also be planning to better utilise their resources and re-imagine internal audit as it too moves to a new normal. This is likely to require: -
 - a. encouraging agility and accountability
 - b. rethinking the operating model based on how people work best e.g. working remotely.
 - c. accelerating digital, tech, and analytics
 - d. understanding better what stakeholders will value, post-COVID-19, and developing and tailoring approach/delivery based on those insights.
 - e. promoting adaptability, which is essential

Resource implications

20. There are no resource implications arising directly from this report.

Equality and Human Rights Implications

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

Recommendation

22. That the contents of the routine update report be noted.

Background Papers

The Constitution of Leicestershire County Council

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=1187&MId=6195&Ver=4&Info=1>

Report to the Corporate Governance Committee on 10 May 2019 - Internal Audit Plan for 2019-20

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=5854&Ver=4>

Circulation under the Local Issues Alert Procedure

None.

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Appendices

- Appendix 1 - Summary of Internal Audit Service work undertaken between 18 January and 29 May 2020.
- Appendix 2 - High Importance Recommendations at 29 May 2020