



CORPORATE GOVERNANCE COMMITTEE – 24 JULY 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 30 May to 10 July 2020 to include an update on how the coronavirus has affected the Internal Audit Service.
 - b. report on progress with implementing high importance recommendations.
 - c. introduce CIPFA's work on standardising engagement opinions across internal audit in the public sector.
 - d. provide a brief update on 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 work undertaken

4. **Appendix 1** provides a summary of work undertaken between 30 May and 10 July 2020. There has only been a short six-week period between the (rearranged) June and scheduled July Committee meetings and so the activity to report on during this period is rather limited.

5. For assurance audits (page 1 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. See also paragraph 15.
6. During this short period, three partial assurance rating audits were cleared after lengthy delays primarily caused by the Covid-19 response requirements. The partial ratings were determined before the virus began to impact on changes in the control environment.
7. LCCIAS also undertakes consulting/advisory type audits (pages 2 and 3). 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.
8. 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, one investigation was 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
9. 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
10. The Service continues to provide consulting and assurance audit work to management on changes to systems and processes to manage a response to Covid-19 and will be pushing forward a range of counter fraud activities during the summer. The change to remote auditing has been mostly successful and almost all staff are now trained to offer the use of data analytics in the audit scope, albeit this may take some time to iron out technical issues and management confidence in data security. There continues to be good advice and information sharing amongst colleagues in other local authorities and from CIPFA and the Institute of Internal Auditors.

11. The six staff that assisted with (emergency) redeployments to the Pensions Service (4) and payments relating to adult social care functions (2), have now returned. They received plaudits from the services they assisted. One of the six is a CIPFA trainee that has 'rotated' to another function for their training. The Service will receive a new CIPFA trainee at the beginning of August. An agency worker is to be redeployed to the Fit for the Future project starting on 22nd July for three months but will then return to the Service at the end of October.
12. Between 2nd March and 10th July 2020, 258 days (previously 209 to 29th May), have been recorded undertaking Covid-19 related work. This can be broken down as: -
- a. Redeployed to critical services
 - i. Pensions Service – 114 days (97)
 - ii. Payments relating to adult social care functions – 67 days (46)
 - b. Reviewing alternative service delivery – 77 days

Designation	Pensions	ASC payments	Alternative service delivery	Total days
HolAS*	-	-	34	34
Audit Managers	-	-	12	12
Senior Auditors	-	-	30	30
Auditors	78	-	1	79
Assistant auditors	36	67	-	103
Total	114	67	77	258

*The HolAS 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.

The time utilised by the HolAS and one Audit Manager is currently understated because time records need updating. The HolAS will provide a more accurate figure verbally at the Committee meeting.

Progress with implementing high importance recommendations

13. 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.

14. To summarise movements within Appendix 2: -

a. New

- i. Consolidated risk – ICT externally hosted contracts
- ii. Consolidated risk – Rights of audit in procurement contracts
- iii. Consolidated risk – Gifts and hospitality registers

b. In progress (extended)

- i. Corporate Resources - Property Contracts Awards
- ii. Corporate Resources - Leicestershire Schools Music Service (recommendation 4)
- iii. Children & Family Services - Burbage CE Infant School (extended)
- iv. Consolidated risk – Records management (recommendation 2)
- v. Children and Family Services – Early years funding

c. Closed – none this period

CIPFA's work on standardising engagement opinions across internal audit in the public sector

- 15. The Chartered Institute of Public Finance and Accountancy (CIPFA) represents local government in reviewing and revising the Public Sector Internal Audit Standards (PSIAS), which all public sector internal audit functions should conform to.
- 16. It is current practice in public sector internal audit teams (including the County Councils) to provide a summary opinion as part of the final report on individual internal audit assurance type engagements. Currently there is no standard definition or terminology for engagement opinions and it is for each Head of Internal Audit to determine an appropriate methodology. Those applied at the County Council were briefly referred to in paragraph 5 earlier.
- 17. As organisations in the public sector increasingly work collaboratively with other public bodies, senior managers and audit committee members can find themselves receiving reports from more than one set of internal auditors. There have been questions or challenges to internal auditors about the consistency of use of their opinions because different terminology was being used. CIPFA's Internal Audit Special Interest Group has reviewed existing practices and has considered the case for a common approach by standardising the terminology and definitions used in engagement opinions and recommending a set of opinions and supporting definitions for internal audit teams to use. CIPFA's

case focuses on engagement opinions not the annual opinion of the Head of Internal Audit.

18. The HoIAS is a member of the Local Authority Chief Auditor's Network (LACAN), which is predominantly comprised of County Council Heads of Internal Audit. Initial feedback from LACAN on CIPFA's proposals is mixed, and currently there is not consensus to accept the standardised terminology and definitions. A LACAN meeting is scheduled for 23 July and it may be possible to update the Committee at its meeting on 24 July on any future direction and whether CIPFA's proposals should be explored for the County Council.

Update to developing the Internal Audit Plan 2020-21

19. At the 12 June Committee meeting, the HoIAS informed that he had intended to develop a short six-month plan (to the end of December) with an aim to review this after three months (September) to ensure it was current and reflective of the fast-changing circumstances. Meetings are scheduled to take place to discuss and confirm this approach with both the Director of Corporate Resources and the identified management teams that are key to the proposed service delivery changes, particularly in terms of interim recovery plans and the associated risk registers.

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?CIId=1187&MIId=6195&Ver=4&Info=1>

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

Neil Jones, Head of Internal Audit & Assurance Service
Tel: 0116 305 7629 Email: neil.jones@leics.gov.uk

Appendices

- Appendix 1 - Summary of Internal Audit Service work undertaken between 30 May and 10 July 2020.
- Appendix 2 - High Importance Recommendations at 10 July 2020