



## **CORPORATE GOVERNANCE COMMITTEE – 24 JULY 2020**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **NATIONAL AUDIT OFFICE – GUIDE FOR AUDIT & RISK COMMITTEES ON FINANCIAL REPORTING AND MANAGEMENT DURING COVID-19**

##### **Purpose**

1. To present a copy the National Audit Office's (NAO) guide for Audit & Risk Committees on financial reporting and management during Covid-19 for consideration and comment in advance of a report to the committee in the autumn detailing the County Council's response.

##### **NAO Guide to Audit Committees**

2. The NAO has published a guide for Audit & Risk Committees on financial reporting and management during Covid-19. A copy is attached as an Appendix to this report.
3. The guide is part of a programme of work being undertaken by the NAO to support Parliament in its scrutiny of the UK government's response to Covid-19. Their aim is to report in a risk-based way on programmes and activities being undertaken by government departments and other organisations, and also to support organisations' own internal scrutiny and challenge.
4. The guide is in four parts: the Annual Report, Financial Reporting, Control Environment, and Regularity of Expenditure.

##### **Annual Report**

5. The NAO guidance highlights how an annual report is a key mechanism for transparent disclosure of an organisation's performance and that disclosures in the report will help to provide information about the impact of Covid-19 on the organisation. Annual report disclosures are expected to consider the period up to when the document is published.
6. The County Council produces a full Annual Delivery Report and Performance Compendium each year which is considered by the Cabinet, the Scrutiny Commission and its Committees, and the County Council. There is also a separate specific Annual Report of the Director of Public Health on aspects of public health delivery and performance. Key performance information is also included in the statement of accounts. A number of service areas produce annual reports to meet specific requirements. The Annual Delivery Report and Performance Compendium is

considered in the autumn with final publication following consideration by the Council each December.

7. The issues raised with the NAO guide will be addressed within the Performance Report for 2019/20. The Council's Annual Report already highlights information on changes to key performance indicators, changes in the risk profile of the Council and new risks, the overall funding position and implications arising therefrom.
8. The performance indicators to be included in the Annual Report are largely the latest official end of year 2019/20 figures. As the NAO report points out this does mean that the impact of Covid-19 is unlikely to be evident in many of those figures, given that the impact of Covid-19 only began from mid-March. It is therefore intended that extra detail will be included in the comments section of the Annual Report to highlight any significant trends in recent in-year data, such as around unemployment figures, where these are relevant to assessing the impact. The latest overall financial position will also be included. Some new indicators on Covid-19 will also be included in the report and more details on the public health situation included in the Director of Public Health's Annual Report. It is expected that the Council's annual reporting will therefore be in compliance with the NAO report.

### **Financial Reporting**

9. This section covers the Statement of Accounts, and in particular the following areas:
  - valuations, including property, pension scheme and inventory valuations
  - completeness of liabilities
  - going concern
  - events after the reporting period
10. The financial statements are currently being prepared. The comments raised within the NAO guide are being considered as part of the completion of the accounts. An update will be provided alongside the Statement of Accounts to the Committee at its next meeting in November 2020. The questions raised in the guide are similar to the enquiries that the External Auditors will make, providing an additional layer of assurance.
11. Following the outbreak of Covid-19, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 were issued in April 2020 which amended the deadlines for the completion and external audit of the financial statements to allow additional time. The revised dates are draft accounts to be published by 31 August 2020 and the External Audit to be completed by 30 November 2020. This change applies to the 2019/20 financial year only. The Council is currently on target to meet the updated deadlines.

### **Control Environment**

12. This section recognises that internal controls may have stopped, required modification or been overridden by new controls introduced to adapt to the impact of the Covid-19 outbreak. Changes may have been made at pace to respond to a dynamic environment, which may impact effectiveness.
13. The guide points out that changes in controls may have occurred due to:

- a. Remote working may have impacted the ability for controls to operate as designed.
  - b. Operational imperative to deliver more quickly or due to changes in staff availability.
  - c. New activities not previously undertaken by the Council.
  - d. Senior management oversight may have been reduced due to urgent operational priorities.
  - e. IT security systems may not have been designed for large-scale remote working.
14. To some extent all of the above had to be considered during the Council's response to the pandemic. In early April, the Head of Internal Audit Service (HoIAS) reminded senior managers that whilst it was a period of significant upheaval with the necessity to make immediate critical decisions regarding changes to processes and service delivery, nevertheless they still had responsibility to ensure that the Council's underlying control environment did not rapidly diminish to the point it became out of control and a danger to future organisational stability. The HoIAS provided some basic reminders of internal controls and offered to provide quick assurance through:
- a. Identifying processes which required a 'mini audit' of their controls.
  - b. Evaluating whether those processes were adequately reflected in Business Continuity plans.
  - c. Advising on controls for any continuing critical risk projects e.g. major system developments.
  - d. Evaluating any significant changes to controls or processes including where other employees have been re-deployed from or to functions.
  - e. Providing assurance on any new (emergency) financial arrangements.
  - f. Reviewing changes to delegations and decision making – in conjunction with the Monitoring Officer.
15. The Internal Audit Service continues to be utilised to provide assurance to management and some specific examples are referred to in other reports on today's agenda. However, the NAO questions do provide some additional thoughts (particularly around sustainability of new controls) with which to strengthen the assurance given. This will be incorporated into audit planning and a more detailed response to the questions raised will be provided to the Committee in November.

### **Regularity of Expenditure**

16. This final part of the guide recognises that organisations such as the Council have been required to increase spending and, in some circumstances, incur expenditure on activities outside those permitted by original authorising legislation or other applicable delegated authority.
17. There is an expectation that even in the current circumstances, the Council's Chief Financial Officer (and the Monitoring Officer) should still ensure that all expenditure adheres to the principles of regularity, propriety, value for money and feasibility. The Internal Audit Service is already undertaking audits of payment systems developed for adult social care providers and has audited the system for making grants from the Communities Fund. Further assurance activity will be undertaken, especially around procurement changes. The guide also raises questions relating to fraud and error that will also be followed through. A detailed response will be provided to the Committee in November.

**Recommendation**

18. The Committee is asked to note the attached guide and to provide any comments.

**Equal Opportunities**

19. None.

**Circulation Under the Local Issues Alert Procedure**

20. None.

**Background Papers**

21. None

**Officers to Contact**

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**Appendices**

Appendix – NAO Guide to Audit Committees