



CORPORATE GOVERNANCE COMMITTEE – 29 JANUARY 2021

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 7 November 2020 to 8th January 2021, to include an update on how the coronavirus has affected the Internal Audit Service.
 - b. report on progress with implementing high importance recommendations.
 - c. Internal audit work for the remainder of 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 7 November 2020 and 8 January 2021. This is a very short period of time especially taking Christmas and New Year holidays into account.
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.

6. During this period over half of the audits (including grant certifications) were Covid-19 related, and this continues into the final quarter. An audit of Travel, Subsistence and Related Allowances (Covid-19 related changes) returned partial assurance. Whilst none of the recommendations were deemed individually as “high importance” either when scored against risk management criteria or in terms of overall materiality, they will require a targeted follow up to ensure improvements have been made. Further to a request for an update from a member at the 25 November 2020 committee, it is confirmed that assurance work on emergency procurement arrangements, is scheduled to begin in February.
7. LCCIAS also undertakes consulting/advisory type audits (page 2). 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 3 and 4 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, whilst two investigations were in progress, none 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
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 5 of Appendix 1.
10. The Service continues to provide consulting and assurance audits and counter fraud activity to management on changes to systems and processes to manage its response to Covid-19.

Progress with implementing high importance recommendations

11. 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.
12. To summarise movements within Appendix 2: -
 - a. **New**
None
 - b. **In progress (extended)**
 - i. Consolidated risk – Records management (recommendation 2 only)
 - ii. Consolidated risk – ICT externally hosted contracts
 - iii. Consolidated risk – Rights of audit in procurement contracts
 - iv. Consolidated risk – Gifts and hospitality registers
 - v. Adults & Communities – Direct Payments (2)
 - c. **Closed**
 - i. Children & Family Services - Burbage CE Infant School
 - ii. Adults & Communities/Corporate Resources – Health Recharges for Hospital Discharges

There will be a concerted effort to close off those recommendations still 'in progress' by the end of the year.

Internal Audit work for the remainder of 2020-21

13. The financial year has been dominated by the impact of the coronavirus. For the Internal Audit Service this has meant seconding staff to temporarily assist other finance functions, changes in audit plans and approaches to focus more on advisory work in systems changes and encountering some difficulty in work throughput due to some unavailability of auditees and (understandably) other work taking priority. Collectively this could mean that insufficient assurance has been gained to assist the HoIAS in providing his annual opinion on the overall adequacy and effectiveness of the control environment at the end of the year.

14. The public sector accounting body CIPFA recognised that for some internal audit functions a combination of the aforementioned impacts could lead to limitations to HoIAS' providing their opinion. CIPFA proactively issued some guidance to help HoIAS' through this unique situation should it occur and suggest potential solutions to avoid the situation or how to manage it if it occurred. A link to the guidance is included below.
15. The HoIAS has almost concluded an exercise to review resources input so far during 2020-21 to ascertain if there has been sufficient coverage across the three control environment categories of governance, risk management and internal control. Once concluded he will discuss with the Director of Corporate Resources and Chief Officers where he may need to divert audit attention in the remaining months to gain sufficient assurance and also will identify other robust sources of assurance gained (internal and external) which he can place reliance upon, even if only for this unique year.
16. At the time of writing this report, the HoIAS is reasonably confident that he will be able to provide a suitably balanced opinion for 2020-21.

Resource implications

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

Equality and Human Rights Implications

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

Recommendation

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

Background Papers

CIPFA Guidance to Internal Auditors and the Leadership Team and Audit Committee of Local Government Bodies. Head of Internal Audit Annual Opinions: Addressing the Risk of a Limitation of Scope

<https://www.cipfa.org/policy-and-guidance/standards/guidance-for-head-of-internal-audit-annual-opinions-202021>

The Constitution of Leicestershire County Council

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

Circulation under the Local Issues Alert Procedure

None.

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Appendices

- Appendix 1 - Summary of Internal Audit Service work undertaken between 6 November 2020 and 8 January 2021.
- Appendix 2 - High Importance Recommendations at 8 January 2021.

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