



## **CORPORATE GOVERNANCE COMMITTEE – 4 JUNE 2021**

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

#### **INTERNAL AUDIT SERVICE AUDIT PLAN 2021-22**

##### **Purpose of Report**

1. The purpose of this report is to provide members with information about the approach to developing the County Council's Internal Audit Plan for 2021-22.

##### **Background**

2. 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 the Internal Audit Plan, which outlines where audit focus will be in 2021-22. Internal audit is an essential component of the Council's corporate governance and assurance framework.

##### **Resources available to construct the 2021-22 Plan**

3. The Public Sector Internal Audit Standards (the PSIAS) require the Head of Internal Audit Service (HoIAS) to establish a risk-based plan 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.
4. The PSIAS advise that when constructing the plan, the HoIAS should consider the organisation's risk management framework, which at the County Council is overseen by the HoIAS. In order 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.
5. Overseeing that the corporate framework is being consistently applied, reviewing the quarterly updating of department risk registers, confirming their consideration by departmental management teams 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. Service recovery risk management (following Covid-19) is not the HoIAS responsibility, but the processes followed align to the corporate framework.

6. 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 (last reported to Committee 25 November 2020) 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 (last reported 25 November 2020) which facilitates targeted counter fraud audits and related activity. Counter fraud campaigns are planned which may lead to investigations. The Council's exposure to Serious and Organised Crime remains a priority and further targeted audits are planned in 2021-22.
7. 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.
8. 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. The group is aligned to the workplace and people modules within the Council's 'Ways of Working Programme' redefining the where and how we work in the future
9. 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. They are requested to identify and record specific examples of sources of assurance both internal and external (e.g. independent assurance from inspections, compliance reviews etc.), the objective and scope of the assurance, when it occurred and what was the outcome/overall opinion. This not only provides good information on other forms of assurance, but also identifies where previously planned improvements have slipped thereby adding to the potential for internal audit review. 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.

10. The 2020-21 AGS self-assessments are being reviewed. For that unique year, Chief Officers were required to consider and report the impact of Covid-19 on their governance and control arrangements, so the exercise could reveal other areas that would benefit from internal audit review.
11. Departments' Business Plans for 2021-22 have recently been accepted by Chief Officers and will be reviewed for new or emerging service changes or risks.
12. Notwithstanding utilising information gathered from the areas reported in paragraphs 4 to 11 above, the HoIAS also has scope to plan audits and undertake other work that are either outside of, or 'cut 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 (the current 2020/21 cycle of NFI continues);
  - 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.

### **Change in approach for the 2021-22 Internal Audit Plan**

13. Covid-19 has required internal auditors to be more agile in their response and more flexible in their planning. Most HoIAS' have moved away from a rigid annual plan and are developing shorter plans (perhaps four or six-month plans) with an aim to review them at set stages to ensure the focus is kept current and is reflective of the fast-changing circumstances. The HoIAS is proposing to adopt 6 month planning cycles.

14. The first priority for the HoIAS is to close off 2020-21 audits that are still in train to some extent and follow up on any prior year audits that returned a partial assurance opinion rating. There has been good engagement with 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.
15. Simultaneously, the HoIAS will review all of the sources of information above and engage with the remaining Chief Officers to build a list of areas/topics where assurance is required. The list will be prioritised to indicate audits to be undertaken in the first period to the end of September 2021. The HoIAS has sought examples of how other Councils prioritise audits. Those audits adjudged lower priority will remain on a 'reserve' list until the next review where they will be compared against any new/emerging issues that might take their place on the priority list.
16. The first 6 month plan for the period to the end of September 2021 will be shared with and approved by Chief Officers and brought to the Committee at its meeting on 23 July 2021 for consideration.
17. Accepting that urgent/emergency items may need to override the timing, in early September, the HoIAS will review progress, key findings and performance from the first 6 months and report them to the Director of Corporate Resources. Then Chief Officers will agree the next 6 months priorities.
18. The Committee will continue to receive progress reports at its regular meetings based on the new methodology and detailing the audits completed, the category, what opinion was reached and summaries of any high importance recommendations.
19. The HoIAS continues to review how the LCCIAS team can better utilise its 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. challenging 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;
  - f. procuring 'specialists' in complex technical audits.
20. The 2021-22 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**

21. The HoIAS is progressing a structure review to enable LCCIAS itself to be 'fit for the future'. Part of the review will allow for an appointment of a senior auditor and a career graded post. The intention is to retain some budget to procure specialists that may be required to undertake complex/technical audits.
22. There will need to be: -
  - a. A continuing acceptance that any trainees will require training and guidance from other staff that will impact productivity and progress.
  - b. Additionally, the HoIAS' time (and to an extent other staff) will be impacted by the structure review.
  - c. Continuing improvements in working practices and the extension of computer assisted audit techniques to further improve auditors' efficiency.
  - d. Continuing co-ordination of the four County Council (sub) functions to optimise the overall assurance that can be given.

### **Equality and Human Rights Implications**

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

### **Recommendation**

24. That the Committee notes the development of the methodology of the Internal Audit Plan for 2021-22.

### **Background Papers**

The Constitution of Leicestershire County Council

### **Circulation under the Local Issues Alert Procedure**

None.

### **Officers to Contact**

Neil Jones, Head of Internal Audit and Assurance Service (Head of Internal Audit Service)  
Telephone 0116 305 7629

Email [Neil.Jones@leics.gov.uk](mailto:Neil.Jones@leics.gov.uk)