



CORPORATE GOVERNANCE COMMITTEE – 23 JULY 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT PLAN AND PROGRESS REPORT AND A
FURTHER UPDATE ON DEVELOPMENTS IN LOCAL
(EXTERNAL) AUDIT ARRANGEMENTS

Purpose of Report

1. The purpose of this report is to: -
 - a. Introduce a proposal to shorten internal audit planning cycles to six month periods.
 - b. Provide a list of planned work for the six months to the end of September 2021.
 - c. Provide a summary of work conducted during the period 15 May to 18 June 2021.
 - d. Report on progress with implementing high importance recommendations.
 - e. Provide a further update on local (external) audit arrangements from 2023 and beyond.

Background

2. 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.
3. 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.
4. At its meeting on 4 June 2021, the HoIAS informed the Committee that Covid-19 has emphasised the need for internal auditors to be more agile in their response and more flexible in their planning. Most HoIAS' working for other local authorities 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 six month planning cycles and this report provides a list of planned work for the six months to the end of September 2021.

5. The Committee has traditionally received a report at each of its meetings on progress against plans including a summary of work undertaken and progressing the implementation of high importance (HI) recommendations. With the proposed move to six monthly planning, it seems prudent to report future plans and progress against them together, and so this report is the first 'merged' report.
6. Over the last 18 months, the HoIAS has provided four reports to the Committee on developments in local (external) audit arrangements, the last being at the meeting of 4 June 2021. There, the HoIAS reported the Government's proposal for the new Audit, Reporting and Governance Authority (ARGA) to take on the role as system leader for the local (external) audit framework, which would ensure alignment with, and harness the positive impact of, the broader audit reforms. That report also informed that the new arrangements will encompass a separate auditor appointing body, in which Public Sector Audit Appointments Ltd (PSAA) will be reconfirmed into the role, with commercial support from The Ministry for Housing Communities and Local Government (MHCLG) for the next procurement. Shortly after the 4 June Committee meeting, PSAA launched its draft prospectus for 2023 and beyond. It is considered prudent to include the details within this report.

The Internal Audit Planning Cycle

7. At the meeting of 4 June 2021, the HoIAS provided detail to the Committee of the various sources of information available to him to inform where the Council might require assurance on its systems of governance, risk management and internal control. He also explained that he needed to plan audits and undertake other work that are either outside of, or 'cut across' risk register boundaries.
8. Work continues in closing off audits commenced in 2020-21 and following up on the implementation of high importance (HI) recommendations. New year audits have already started where Department Management Teams and Assistant Directors have put forward areas where they would like assurance to be provided. From the other information gathered, a first short plan of audits to be started has been prepared which is contained in **Appendix 1**. The audit area is included, what part of the control environment will be covered i.e. governance, risk management or internal control and a basic rationale for inclusion. The availability of resources will determine allocation and progressing. A high number of grants (16) are required to be certified by the end of September 2021.
9. The first six month plan for the period to the end of September 2021 has been shared with and approved by Chief Officers (a requirement of the PSIAS).

Accepting that urgent/emergency items may need to override the planned timing, in early October, the HoIAS will review progress, key findings and performance from the first 6 months and report them to the Director of Corporate Resources. Chief Officers will then agree the next six months priorities.

10. 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.

Summary of work undertaken

11. 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. **Appendix 2** provides a summary of work undertaken between 15 May and 18 June 2021. During this very short time period between Committee meetings, it is inevitable that little movement and closure of audits has occurred.
12. For assurance audits (page 1 of Appendix 2) 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.
13. The Council's Internal Audit Service (LCCIAS) also undertakes consulting/advisory type audits. Details, including where these incur a reasonable amount of resource, are included on page 2 of Appendix 2. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes, and policies. The ICT Auditor oversees reviews of higher risk Information Security Risk Assessments (ISRA).
14. Pages 3 and 4 of Appendix 2 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. During this period, two 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 – non occurred during this period.
15. In order to remain effective, LCCIAS staff regularly attend virtual 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 2.

Progress with implementing high importance recommendations

16. The Committee is also tasked with monitoring the implementation of high importance recommendations. **Appendix 3** 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.
17. To summarise movements within Appendix 3 (once again acknowledging there has been a very short time span between Committees): -
- a. **New** – none this cycle
 - b. **In progress (extended – longest timespan first)**
 - 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. Adults & Communities – Direct Payments (2)
 - v. Chief Executives - Coroner Recharges
 - vi. Consolidated Risk - Travel, Subsistence and Related Allowances (COVID-19 related changes).
 - c. **Closed**
 - i. Consolidated risk – Gifts and hospitality registers.

Local (external) audit arrangements from 2023 and beyond

18. Within the Council's Constitution under Part 3 'Responsibility for Functions', the Corporate Governance Committee has a responsibility, 'To monitor the

adequacy and effectiveness of the external audit of the Council's services and functions and to: -

- a. consider the nature and scope of the external audit of the Council's services and functions'.
19. During Autumn 2021 all local government and police bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24. In relation to appointing auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by the PSAA. Following reports to the Corporate Governance Committee and County Council in 2016, the County Council opted in to the PSAA auditor arrangements from 2018/19.
 20. PSAA is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts entered into with the audit firms.
 21. On 10th June PSAA launched its draft prospectus for 2023 and beyond which provides an introduction to the PSAA national scheme and invites views and comments from local bodies and other interested parties in relation to the aims of the scheme and how it needs to develop going forward. Details can be found at: -

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>
 22. The prospectus explains in some detail how the audit market quickly destabilised starting in 2018 when a series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession there has been the results of four independent reviews commissioned by Government including Redmond's review of local authority financial reporting and external audit. Much of this has been explained to the Committee in previous reports.
 23. It is PSAA's view that the audit market will continue to be relatively unstable and difficult to predict for a further period of time as the Government continues to develop and implement its policy response to the four independent reviews; as further regulatory pressure is applied; and as firms respond and adapt. It considers that local government audit will not be immune from these difficulties.

24. The prospectus includes plans to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20 (i.e. the focus of appointing external auditors will be clearly on quality, not cost). This change in approach would be supported by key performance indicators on audit approach, quality assurance arrangements, resourcing, capacity and capability. There is some nervousness in the local government sector about this proposal, in that whilst quality is clearly important, costs must not become excessive.
25. Consultation on the prospectus closed on 8th July. The Director of Corporate Resources compiled a response which was shared with the Chair of the Committee should he also wish to respond on behalf of the Committee. A further report will be brought to the Committee once the consultations are concluded.

Resource Implications

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

Equality and Human Rights Implications

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

Recommendation

28. 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 – ‘Audit and Governance Update’ – 31 January 2020:

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6053&Ver=4>

Reports to the Corporate Governance Committee – ‘Updates in Developments in Local (External) Audit Arrangements – 25 November 2020, 29 January 2021, 4 June 2021:

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6361&Ver=4>
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6492&Ver=4>
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6493&Ver=4>

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix 1	Internal Audit Plan – 6 months to end of September 2021
Appendix 2	Summary of Internal Audit Service work undertaken between 15 May and 18 June 2021.
Appendix 3	High Importance Recommendations at 25 June 2021

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