



**CORPORATE GOVERNANCE COMMITTEE – 5 NOVEMBER
2021**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT PLAN AND PROGRESS REPORT

Purpose of Report

1. The purpose of this report is to: -
 - a. Provide a list of planned work for the six months to the end of March 2022.
 - b. Provide a summary of work conducted during the period 19 June to 22 October 2021.
 - c. Report on progress with implementing high importance (HI) recommendations.
 - d. Provide brief information on projects that the Chartered Institute of Public Finance and Accountancy (CIPFA) is undertaking that relate to internal audit and audit committees.

Background

2. The Public Sector Internal Audit Standards (the PSIAS) require the Head of Internal Audit Service (HoIAS) to establish risk-based plans 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 23 July 2021, the HoIAS informed the Committee that he was introducing six month planning cycles and this report provides a list of planned work for the next six months to the end of March 2022. It also contains information on resources, progress against the previous six months planned work, an update on the implementation of high importance (HI) recommendations and brief information on work that CIPFA is undertaking.

Plan for the 6 months ending March 2022

5. Work continues in closing off audits commenced in 2020-21 and following up on the implementation of HI recommendations.
6. The first six month plan for the period to the end of September 2021 was approved by the County Council's Chief Officers (a requirement of the PSIAS). Progress has been slower than planned over the period, due to a combination of auditors' and officers' leave and unplanned staff sickness absences. Unfortunately, two very experienced auditors left the Council's Internal Audit Service (LCCIAS) over the summer. Approval has been granted to recruit replacements, but permanent recruitment of good quality staff is difficult at the current time and something that other HoIAS' are also experiencing. It is likely that the LCCIAS will employ agency staff to ensure sufficient internal audit coverage is provided for the remaining five months of the financial year, so that the HoIAS annual opinion will not be jeopardised. The costs of either option are containable within the LCCIAS budget.
7. In addition to the above, the opportunity has been taken to review the management structure of the function. To support the diverse range of assurance functions and clients, including the City Council, that the LCCIAS supports, approval was received to appoint a third Audit Manager. This will allow the Audit Managers to take on oversight of the counter fraud, risk management, governance reporting and insurance functions. This should enable the HoIAS to provide more strategic direction to the functions under his control.
8. The HoIAS has reviewed the position with audits that were planned to be started before September and discussed with the Director of Corporate Resources additional priorities for the next six months to the end of March 2022. The updated list (minus closed off audits) is shown at **Appendix 1**. A high number of audits are already in train at various stages. The audits added for the period to March 2022 are shown in **bold font**. Previously requested audits that have been postponed are shown at the bottom of the page along with a brief explanation why in *italics*. Accepting that urgent or emergency items may need to override the planned timing, at the end of March the HoIAS will review progress, key findings and performance and report once again to the Director of Corporate Resources.
9. 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

10. 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 19 June and 22 October 2021.

11. For assurance audits (pages 1 and 2 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.
12. Grant certifications currently continue to dominate planned work. This is not considered to be the best use of internal audit resource and pressure to change the rules so that internal audit does not have to do minor grant certifications will be applied on National Government departments through the Local Authority Chief Auditors Network and potentially the Society of County Treasurers.
13. The LCCIAS also undertakes consulting/advisory type audits (pages 3 and 4 of Appendix 2). Details, including where these incur a reasonable amount of resource, 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. The ICT Auditor oversees reviews of higher risk Information Security Risk Assessments (ISRA).
14. Pages 5 and 6 of Appendix 2 provides information on: -
 - a. Where the LCCIAS either undertakes itself (or aids others) with unplanned investigations. These are not reported to the Committee until the outcome is known. 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 – none occurred during this period
15. In order to remain effective, LCCIAS staff regularly attend online training and development events and both midlands and national internal audit network events. A summary of the events attended during the last quarter is shown on pages 7 and 8 of Appendix 2.

Progress with implementing high importance (HI) recommendations

16. The Committee is also tasked with monitoring the implementation of HI recommendations. **Appendix 3** details 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 the 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. There has been good progress in this cycle. To summarise movements within Appendix 3: -
- a. **New** – none this cycle
 - b. **In progress (extended – longest timespan first)**
 - i. Consolidated risk – ICT externally hosted contracts (two remain)
 - ii. Consolidated Risk - Travel, Subsistence and Related Allowances (COVID-19 related changes)
 - c. **Closed**
 - i. Adults and Communities – Direct Payments
 - ii. Chief Executives - Coroner Recharges
 - iii. Consolidated risk – ICT externally hosted contracts (one from three)
 - iv. Consolidated risk – Rights of audit in procurement contracts
 - v. Consolidated risk – Records management (final recommendation)

Projects undertaken by Chartered Institute of Public Finance and Accountancy (CIPFA) relating to internal audit and audit committees

18. The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently undertaking a major research project looking at internal audit in the public services. It is keen to understand how internal audit is contributing most to their organisations and its future potential. This research is part of CIPFA's commitment to supporting the internal audit profession, good governance, and strong public financial management. The findings and conclusions of the research will be published by CIPFA in early 2022. The report will support all those with an interest in effective internal audit in the public services. One aspect of the project is a survey of internal auditors and their clients. CIPFA is keen to receive as wide a view as possible from across the public services and obtain the perspectives of both internal auditors and those who rely on the work of internal audit. The HoIAS, Director of Corporate Resources and the Chair of the Committee each responded to the survey.

19. Over the summer, the former Ministry of Housing, Communities and Local Government (MHCLG) (now known as the Department of Levelling Up, Housing and Communities (DLUHC)) conducted a technical consultation on the National Government's planned responses to the 'Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting', more commonly referred to as the Redmond Review. The consultation was predominantly about changes to local (external) audit arrangements but also included proposals to strengthen audit committee arrangements within councils. This related to Redmond's recommendations on, 'Enhancing the functions of local audit and the governance for responding to its findings'. CIPFA has been part of a working group of relevant stakeholder organisations which has considered how to improve the effectiveness of local audit by ensuring that there are arrangements in place so that local (external) audit reports and recommendations are effectively considered and acted upon by local authorities. In its response CIPFA supported: -
- a. Until guidance to audit committees is strengthened (see below), local authorities should review the existing structure of their audit committees to consider whether their arrangements support effectiveness.
 - b. Undertaking a review of its 'Audit Committees, Practical Guidance for Local Authorities and Police'. It is intended that the updated publication will be available by April 2022. As the guidance will have no statutory backing, CIPFA considers that it is essential that once the guidance is completed it receives the support of key stakeholders, including DLUHC. This will encourage its widespread adoption.
 - c. a view that local (external) auditors are well placed to identify any bodies that are struggling to make improvements to their audit committee effectiveness or do not attach sufficient weight to this aspect of their governance. CIPFA is of the view that the local audit framework should ensure that auditors are prepared to make comments and recommendations where improvement is required.
 - d. A view that mandating the audit committee would have additional benefits beyond tackling problem areas.
 - e. A proposal that local (external) auditors should be required to present an annual report to full Council, and that the audit committee should also report its responses to the local (external) auditor's report. CIPFA sees it as important that the local auditors can engage directly with the audit committee for a full discussion of the matters underpinning the report and that the committee should take the lead in making recommendations on how the auditor's findings should be addressed. Presenting the Committee's response to the body charged with governance (e.g. full council) alongside the auditor's annual report provides assurance on how effectively the audit committee is leading on addressing auditor concerns.
 - f. The comments in the consultation on the importance of internal audit and the need to ensure that local government bodies maintain an effective internal audit, taking into account the requirements of the Public Sector Internal Audit Standards (2017), the Local Audit Application Note (2019) and that governance arrangements for internal

audit are in accordance with the CIPFA Statement on the Role of the Head of Internal Audit.

20. The DLUHC's conclusions will be considered and reported to a future meeting of the Committee.

Resource implications

21. None

Equality and Human Rights Implications

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

Recommendation

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

Background Papers

[The Constitution of Leicestershire County Council](#)

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf

Circulation under the Local Issues Alert Procedure

None.

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Appendices

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| Appendix 1 | Internal Audit Plan – 6 months to end of March 2022 |
| Appendix 2 | Summary of Internal Audit Service work undertaken between 19 June and 22 October 2021. |
| Appendix 3 | High Importance Recommendations at 22 October 2021 |