



**CORPORATE GOVERNANCE COMMITTEE – 30 SEPTEMBER
2022**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

AUDIT GENERAL UPDATE

Purpose of Report

1. The purpose of this report is to provide the Corporate Governance Committee (the Committee) with updates on developments in audit, to include: -
 - a. Information about a report 'Internal Audit: Untapped Potential', following extensive research by CIPFA.
 - b. Government response to local audit framework: technical consultation.
 - c. Enhancing the functions of local audit and the governance for responding to its findings.
 - d. CIPFA revised guidance on Audit Committees (2022).

CIPFA research and report, 'Internal Audit: Untapped Potential'

2. At its meeting on 5 November 2021, the Committee was informed that CIPFA was undertaking a major research project looking at internal audit in the public services. It was keen to understand how internal audit is contributing most to their organisations and its future potential. The research was part of CIPFA's commitment to supporting the internal audit profession, good governance, and strong public financial management.
3. CIPFA conducted UK-wide research, sending an open survey to those in the public services, including those in the internal audit profession, management clients and audit committee members. The Head of Internal Audit & Assurance Service (HoIAS), the Director of Corporate Resources and the Chair of the Committee each responded to the survey which overall received a strong response with 831 submissions.
4. Following the research, on 23 May CIPFA released its report, 'Internal Audit: Untapped Potential' <https://www.cipfa.org/-/media/Files/CIPFA-Thinks/Insight/Internal-audit-untapped-potential.pdf>. The outcome of the research concluded that where internal audit is operating effectively, it is already providing support to organisations in a unique way by providing independent assurance, but there are pockets where internal audit is unable to do this. CIPFA's report was swiftly promoted by several other UK accounting and internal auditing bodies. The full report spans 58 pages and is split into three main themes: -

- a. How internal audit is making an impact
 - b. The potential for internal audit
 - c. What is holding internal audit back?
5. A summary report is attached as Appendix 1, and at Appendix 2 is a Public Finance article written by CIPFA's governance advisor and the report's author titled 'We need to talk about internal audit', which provides some suggestions on what exactly discussions should be about.
 6. There is much to reflect on in the report especially around expectations (of clients, Audit Committees, and internal auditors), perceptions and understanding and promoting the breadth of the service. The HoIAS is scheduled to go through the main report with the Director of Corporate Resources (and other statutory officers and the Chair of the Committee) to discuss the findings and assess what improvement actions can be developed for internal audit arrangements.
 7. In preparation for the meeting, the HoIAS will pre-prepare his answers to Appendix B to the full CIPFA report, 'Ten questions to ask your internal auditors'. These are suggested questions that senior management and audit committees should be asking to obtain the maximum impact from internal audit. Comparing views on these questions with the HoIAS also lead to some useful discussions. The ten questions are included at Appendix 3.
 8. It's expected that the discussion will be very open, frank and forward looking as to where improvements can be made in arrangements. Some will be more immediate e.g. changes to the order of progress reports to Committee to bring key findings forward, seeking the Chair's view on providing more background on a specific audit, providing training on the types of audit methodology, and agreements to more use of data analytics and to changes/improvements to assignment reporting and the annual planning process. Others will need further conversations with key officers e.g. improving engagement with the Chair and Chief Officers and perhaps the Committee reviewing the effectiveness of the internal audit function and the HoIAS. A focus on developing assurance mapping will go some way to satisfying Chief Officers, the Committee, and others that the Internal Audit Service is providing assurance in the right areas.
 9. An update will be provided at a future meeting of the Committee.

Government response to local audit framework: technical consultation

10. At its meeting on 5 November 2021, the Committee was informed that over the summer of 2021, the Department of Levelling Up, Housing and Communities (DLUHC) had conducted a 'Local Audit Framework: technical consultation' on the 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'.

11. On 31 May 2022, DLUHC published the 'Government response to local audit framework: technical consultation' which marked the culmination of its response to the 'The Redmond Review'. The technical consultation set out the Government's intention to establish the Audit Reporting and Governance Authority (ARGA), to replace the Financial Reporting Council (FRC), as the new system leader for local audit. Ahead of ARGA's establishment, a shadow system leader arrangement will start at the FRC from September 2022 and that will establish the first Director of Local Audit to start up a dedicated local audit unit.
12. The Government's response on 'Enhancing the functions of local audit and the governance for responding to its findings' is explained in the next section of this report. Other key points from the Government response have been extracted and the implications for the County Council are being assessed and will be reported to a future committee. These cover: -
 - a. Responsibilities and functions of the System Leader (ARGA)
 - b. Expertise and focus of the dedicated local audit unit
 - c. The continuing role of the Liaison Committee (chaired by DLUHC) enabling engagement from across the local audit system on how to balance different priorities and objectives
 - d. The governance of ARGA (including Board membership) as system leader for local audit
 - e. Funding of ARGA's system leader role
 - f. An annual report summarising the state of local audit
 - g. Appointing person arrangements – retaining Public Sector Audit Appointments Limited (PSAA) as the organisation to act for the bulk procurement of audit services to those local bodies that choose to opt-in.
 - h. Auditor training and qualifications

Enhancing the functions of local audit and the governance for responding to its findings

13. On 15 June 2022, Members of the Committee were informed by email that in its response to the local audit framework: technical consultation, the Government considered it proportionate to establish a simple principle that local authorities should have an audit committee, with at least one independent member. It also considered that mandating for audit committees would ensure widespread take-up, along with improved public accountability. An extract of the Government's full response on this part of the consultation was included with the email. The Government indicated it would continue to consult with partners on how the proposed changes should be implemented. However the timescales were vague, '...once parliamentary time allows', and so it could be some time before the relevant statute is enacted.

14. In the intervening period, the Government encouraged local authorities to establish their audit committee arrangements in line with CIPFA's revised guidance on audit committees, including appointing independent members. In its 2022 revised position statement on Audit Committees (reported to Corporate Governance Committee on 13 May), CIPFA advised, 'The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation. Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise'. One could be expected to be a financial expert, the other a governance expert.
15. The Terms of Reference (ToR) of the Corporate Governance Committee currently cover the requirements of the Audit Committee for Leicestershire County Council but it is likely that the pending legislation/statutory instrument referred to will set out the requirements for that committee/function in future and the Committee's ToR will have to be changed to accommodate anything in the regulations and the change in membership by the inclusion of independent co-opted members.
16. The HoIAS has researched and is continuing to monitor how other local authorities are approaching the Government's proposal and is scheduled to meet with the Monitoring Officer, Democratic Services Officer and Director of Corporate Resources in October. An update will be reported to a future Committee with a view to any changes to the Constitution which may be required being presented to Council in December for approval following consideration by this Committee in November.

CIPFA revised guidance on Audit Committees (2022)

17. At its meeting on 13 May, the Committee received CIPFA's 2022 revised Position Statement on Audit Committees and its refreshed short guide on 'The audit committee and organisational effectiveness in local authorities'. The Position Statement had been prepared in consultation with sector representatives, had been updated to reflect Redmond's findings and recommendations and was now supported by DLUHC. The Committee was advised that publication of the accompanying revised 'Audit Committees, Practical Guidance for Local Authorities and Police' (2022) had been postponed to June. A further delay has occurred but CIPFA has confirmed that publication is imminent.
18. Once the guidance is published, the HoIAS will arrange a Members' briefing to enable consideration to be given to the detail and discuss next steps.

Resource implications

19. None

Equality and Human Rights Implications

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

Recommendation

21. The Committee is asked to note the contents of the audit general update report now provided.

Background Papers

The Constitution of Leicestershire County Council

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

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

Reports to Corporate Governance Committee: -

Report of the Director of Corporate Resources – ‘Internal Audit Plan and Progress Report’ – 5 November 2021

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6495&Ver=4>

Report of the Director of Corporate Resources – ‘Internal Audit Service - Progress and Plan’ – 13 May 2022

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6844&Ver=4>

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

Chris Tambini, Director of Corporate Resources

Tel: 0116 305 6199 E-mail: chris.tambini@leics.gov.uk

Neil Jones, Head of Internal Audit & Assurance Service

Tel: 0116 305 7629 Email: neil.jones@leics.gov.uk

Appendices

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| Appendix 1 | Summary report - Internal audit untapped potential |
| Appendix 2 | We need to talk about internal audit |
| Appendix 3 | Internal audit untapped potential (Appendix B) - Ten questions to ask your internal auditors |

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