



**CORPORATE GOVERNANCE COMMITTEE – 16 SEPTEMBER
2024**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**INTERNAL AUDIT SERVICE – 2024-25 PLAN, PROGRESS AND
UPDATES**

Purpose of Report

1. The purpose of this report is to:
 - a. Introduce the Internal Audit Plan for 2024-25
 - b. Provide a summary of work undertaken during the period 20 April to 29 August 2024.
 - c. Report on progress with implementing high importance (HI) recommendations at 29 August 2024
 - d. Inform members about the ending of the delegation agreement to provide internal audit services to Leicester City Council
 - e. Provide a brief introduction to forthcoming changes to the Public Sector Internal Audit Standards

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 Internal Audit Plans. Internal audit is an essential component of the Council's corporate governance and assurance framework.

The Internal Audit Plan 2024-25

4. At its meeting on 20 May 2024, the Committee received a report informing how the 2024-25 Internal Audit Plan was to be constructed. This explained that not only had there been the traditional gathering of relevant information on risks from various internal and external sources, but also that the HoIAS and Audit Managers had restored and were continuing to develop a previously used audit needs assessment model. An extract of the model was provided in an appendix, albeit scores and outcomes were for illustrative purposes only. The details of the model were explained.
5. The more structured model determines which audits take priority, how often they're undertaken and allows for tracking in year changes and movements, and whether they should be afforded higher priority over 'originally' planned audits. This should provide better assurance that scarce internal audit resource is being targeted to the highest priority areas
6. A baseline annual plan for 2024-25, and the start point of regular/continuous update of the risk model, was scheduled to be agreed with the Director of Corporate Resources, and the Committee provided delegation to the Director to agree by the end of May the 2024/25 Internal Audit Plan with Chief Officers and email members for approval. Unfortunately, there were delays, and the Committee's delegation which was time limited to the end of May expired.
7. The HoIAS delivered the Plan to Chief Officers on 25 July. Calculation of the resource available to be allocated to the County Council audit plan for 2024/25 (including audits relating to EMSS), was constructed as follows (figures in days): -

<u>Net resource available</u>	<u>1,463</u>
<u>Resource allocated</u>	
LCC audits (including contingency – 34 days)	1,170
EMSS audits (reports, HoIA annual report/opinion, external auditor)	10
Counter Fraud (proactive & advisory, policies & procedures)	35
<u>Sub-total LCC Audit and Counter Fraud</u>	<u>1,215</u>
Developing the Internal Audit and Counter Fraud Service	34
LCC Corporate requirements	46
Planning, allocation & Reporting	89
Servicing Corporate Governance Committee & Advising Officers	79
<u>Sub-total managing the LCC Audit & Counter Fraud function</u>	<u>248</u>
<u>Total allocated to LCC Audit & Counter Fraud</u>	<u>1,463</u>

8. An extract of the finalised Plan agreed by Chief Officers on 25 July is attached **Appendix 1**. Including a contingency (34 days) the overall resource available for specific County Council audits 2024-25 has been calculated at 1,170 days. Additional allocations have been reserved for audits relating to EMSS (even though this is Nottingham City Council's Internal Audit responsibility 10 days are allocated to review reports, recommendations and liaise over progress etc), and an allocation for proactive Counter Fraud work (35 days). The total planned days for audit and counter fraud relevant to the County Council is 1,215 days. The days allocated for each audit (and in total) is only a guide and will invariably differ from the original agreed plan. A further 248 days has been estimated to manage the LCC Internal Audit & Counter Fraud function so bringing the total resource allocation to 1,463 days.
9. The Plan of audits can also be reported by department and by the 'type' of audit (these categories are under further development).

<u>By department</u>	<u>Planned days</u>	<u>By 'type'</u>	<u>Planned days</u>
Adults & Communities	49	Compliance	117
Chief Executives	72	Counter Fraud	10
Children & Family Services	170	Financial	308
Consolidated Risk (*)	506	Governance	198
Corporate Resources	115	Grant	110
Environment & Transportation	189	Investigation	29
Public Health	35	Legal Risk	12
Contingency	34	People	5
		Performance Mgt.	1
		Procurement	46
		Project	23
		Risk Management	277
		Contingency	34
Total specific LCC audits	1,170	Total specific LCC audits	1,170
EMSS	10	EMSS	10
Counter Fraud - proactive	35	Counter Fraud	35
Total relevant to LCC	1,215	Total relevant to LCC	1,215

(*) Consolidated risk is an internal term used to define audits that cross departmental boundaries.

10. Extensive effort has gone into constructing the 2024-25 Plan. Though it is 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. The plan can vary very quickly and may need to be adjusted, some reasons being: -

- Reduced resources
- Unplanned absenteeism

- Failure to control overheads
- Some audits fail to materialise – change in management plans
- Some audits are considerably bigger than planned in terms of testing required
- A rise in unplanned work e.g. investigations, s151 requests, involvement in projects etc

11. The return to a more structured model to determine which audits take priority, how often they're undertaken and ability to track in year changes and movements, and whether they should be afforded higher priority over 'originally' planned audits should provide assurance that scarce resource is being targeted to the highest priority areas.

12. Rigorous reviews against progress are scheduled to be undertaken at least monthly. Utilising information from the Service's time recording system, the HoIAS and Audit Manager presented a position statement at 14 August for review by the Assistant Director (Finance and Commissioning). 360 days had been recorded since 1 April. In terms of number of audits: -

<u>At 14 August 2024</u>	<u>Audits</u>
Original number of audits in Appendix 1 - approved by CMT 25 July	145
Changes since 25 July allocation	33
	<u>178</u>
Audits completed to at least draft stage	43
Audits at various stages of progress	58
Sub-total audits complete/in progress (57% of total number)	<u>101</u>
Grant certifications not started by 14 August (planned time 72 days)	15
Audits not started by 14 August (total planned time 647 days)	62
Sub-total audits not started - (43%)	<u>77</u>
Balance to above	<u>178</u>

13. Further detailed reviews of remaining priorities will be undertaken and will include factoring in assessments of new unplanned audits requested by management (especially assistance with investigations). It will be important to closely manage priorities and workloads to ensure sufficient progress is made.

14. The Corporate Governance Committee will continue to receive progress reports at its regular meetings based on the new methodology and detailing the audits completed, changes to the plan and reasons. In future, reporting cut off dates will be month end.

15. The Service already has a suite of Key Performance Indicators for internal audit work which was collated by the Midlands Counties Heads of Internal Audit Group late in 2023. The HoIAS will review these, and further work being undertaken by another internal audit group and agree with the Assistant Director (Finance and Commissioning) the most suitable measures. This will also address a recommendation within the recently reported External Quality Assessment.

Summary of work undertaken

16. **Appendix 2** provides a summary of internal audit work undertaken between 20 April and 29 August 2024. For assurance audits (pages 1 to 4) an 'opinion' is mostly 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. All audits completed so far this year have been given a substantial opinion.
17. At the end of page 4 are the opinions for the four East Midlands Shared Service (EMSS) audits that are undertaken by Nottingham City Council Internal Audit (NCCIA) which is the designated provider for EMSS. EMSS managers are responsible for ensuring that proper standards of internal control operate within the organisation. NCCIA undertakes reviews of the internal control procedures in respect of the key systems and processes run by EMSS on behalf of itself and its clients; the Annual Audit Plan continues to focus on these areas.
18. Consistent with the County Councils approach, NCCIA grades any recommendations into high, medium and low priority and provides an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. For the 2023-24 audits, the opinion for one area (ICT review) was upgraded, whereas for the other three areas (payroll and HR, accounts payable and accounts receivable) the opinions stayed the same. There are action plans for improvements agreed with the Head of East Midlands Shared Services. The results of internal audit work for 2023-24 are due to be reported to the Joint Committee on 16 September 2024. The Interim Head of Audit & Risk for NCCIA will provide the Head of Internal Audit Annual Opinion (previous year 'Limited Level of Assurance'). Mr Breckon CC and Mr Poland CC represent the County Council at East Midlands Shared Services Joint Committee meetings. The Interim Head of Audit & Risk for NCCIA will also provide the Head of Internal Audit Annual Opinion for 2023-24 and plans for 2024-25 audits to this Committee on 16 September.
19. 'Partial' ratings are normally given when the auditor has reported at least one high importance (HI) recommendation i.e. where the risk would continue to exist if the recommendation was not implemented. An agreed HI recommendation denotes that there is material risk exposure. It is particularly important that management quickly addresses those recommendations denoted as HI and implements an agreed action plan without delay. HI recommendations/negative assurance ratings are reported in summary to the Committee and continue to be reported until the HoIAS is satisfied that actions

have been implemented. Occasionally, the auditor might report several recommendations that individually are not graded HI but collectively would require a targeted follow up to ensure improvements have been made. Until a report has been issued in draft and there's some certainty that the grading will not change, some audits are currently showing as to be confirmed 'TBC'.

20. LCCIAS also undertakes consulting/advisory type audits - see Appendix 2 (pages 5 to 8). 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. For some consulting audits, the 'value added' by undertaking those audits is shown. During this period, the ICT Auditor has either undertaken or overseen a considerable number of reviews of higher risk Information Security Risk Assessments (ISRA).
21. Grants that were certified during the period appear on page 9.
22. Pages 10 to 12 of Appendix 2 provide information on: -
- a. Where the LCCIAS either undertakes itself (or aids others) with unplanned investigations. These are only reported to the Committee once the outcome is known to avoid jeopardising investigations by others e.g. the Police. This period, five investigations were concluded. The Council's Legal, People and Insurance Services are notified where appropriate.
 - 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. There is Internal Audit representation on several corporate project groups.
23. To remain effective, and either undertake audits or feed information and guidance to others, LCCIAS staff regularly attend online training and development events and both midlands and national internal audit, risk and counter fraud network events. A summary of the events attended during the last quarter is shown on pages 13 and 14..

Progress with implementing HI recommendations

24. 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 an 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 where applicable) that action has been implemented.

25. To summarise movements within Appendix 3: -

a. New

i. None

b. In progress (earliest date reported first & number of extensions)

- i. Consolidated Risk - Surveillance and CCTV Audit (6)
- ii. Environment & Transport - Highways works Bond Reimbursement (3)
- iii. Children & Family Services – various schools' deficits (1)

c. Closed/No longer relevant.

i. None this cycle

Ending of the delegation agreement to provide internal audit services to Leicester City Council

26. In 2017, Leicester City Council's Internal Audit function was formally delegated to Leicestershire County Council. Since then, the HoIAS acted as the City's Head of Internal Audit for governance purposes and the County Council's team provided the City's internal audit function.

27. Officers of the two councils worked together closely over the last seven years to realise the intended benefits of the delegation. However, despite changes offered by the HoIAS, the arrangement unfortunately began to fall short of the City's expectations. At the end of November 2023, the City's Director of Finance first informed the City Council's Governance and Audit Committee that a new service provider was to be sought. The County staff group were informed of this decision and that TUPE would likely apply. This naturally caused some uncertainty and angst amongst the staff group. In December the City Council gave formal notice of its intention to end the delegation by the end of June 2024.

28. Since then, as well as the negative effect on the staff group, the HoIAS has undertaken a considerable amount of work along with colleagues in the County Council's People Services, Pensions and Legal teams to transition the provision to a new provider. A representative of GMB Union took part in consultation meetings. There were some delays (not caused by the County Council) and an extension to the end of the agreement was agreed by mutual consent to 31 July.

29. The decision to withdraw the delegation was formally ratified by the City Mayor on 22 July. On 1 August, two County staff TUPE transferred to the new

provider, one staff resigned/retired, and a further agency staff's contract was ended. The secure transfer of relevant historic information is underway.

30. The Chairman and Liberal Democrat Spokesman of the Corporate Governance Committee and the Cabinet Lead Member for Resources have been briefed throughout the transition. The Head of Democratic Services has been informed to update the Constitution to remove the reference in Part 3 – Responsibility for Functions that the arrangement has ended. This will be reported in the Annual Review of the Constitution to Council in September.

Forthcoming changes to the Public Sector Internal Audit Standards

31. In January 2024, the Institute of Internal Auditors published new Global Internal Audit Standards. These Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. The Standards are organised over 5 domains and 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfil the Purpose of Internal Auditing. The new Standards will be effective from January 2025.
32. The Public Sector Internal Audit Standards (PSIAS) provide a consolidated approach to the function of internal auditing across the whole of the public sector enabling continuity, sound corporate governance and transparency. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA) standards, and additional requirements and interpretations for the UK public sector. The PSIAS were last updated in March 2017.
33. CIPFA has undertaken an in-depth review of internal audit standards for the UK local government sector. CIPFA continues to work with the other UK public sector standard setters on the introduction of a replacement for the current Public Sector Internal Audit Standards. It is expected that the Internal Audit Standards Advisory Board (IASAB) will issue consultation by the end of September.
34. At its meeting on 20 May 2024, the Committee was informed that following its five yearly External Quality Assessment (EQA), the Internal Audit Service had been assessed as, '...delivering to a standard that generally conforms with the Public Sector Internal Audit Standards'. The EQA was undertaken before the implementation of the new standards to give some time to understand their impact, which could be considerable.
35. Within the new Standards, Domain III is key since it relates to the Governing the Internal Audit Function. CIPFA is proposing to introduce a Code of Practice for the Governance of Internal Audit in UK Local Government. The code would apply to all principal authorities in UK local government. By ensuring effective arrangements for internal audit, authorities support the best use of their resources and robust governance. CIPFA proposes that the code applies to

the governance of internal audit and is the responsibility of those charged with governance within a local government body. The code sets out the conditions for internal audit, consistent with existing CIPFA guidance and governance within the sector. For heads of internal audit, the code will meet the same objectives as the 'essential conditions' set out in the Global Standards, but in a way that is appropriate for UK local government.

36. CIPFA is confident that many local government bodies would achieve conformance with the Principles of Domain III, however a clear roadmap for the sector would support internal audit teams, audit committees and senior management and ensure greater consistency. It also sends a clear message about the importance and value of internal audit.
37. CIPFA is suggesting that conformance to the governance code is included in the annual governance statement. CIPFA is undertaking a project to update its guidance on the annual governance statement so it will incorporate this requirement.
38. CIPFA will consult on the code at the same time as the IASAB consultation (issue by end of September). It is proposed that both the standards and the code would be effective from 1 April 2025. CIPFA will hold engagement webinars on both consultations in the autumn.
39. The HoIAS will keep members informed on progress.

Resource implications

40. One of the consequences of ending the agreement to provide internal audit service to Leicester City Council has been a substantial net loss in traded income.
41. A vacancy remains in a Senior Auditor post which leads on the corporate risk management arrangements. This has affected internal audit delivery but also the HoIAS has again had to undertake the risk management update cycle, which impacts its time and highlights a single point of failure.
42. Now that the two projects regarding the City Council transition and the implementation of the annual planning model are complete, the HoIAS will plan to undertake a review of the Service's resources.

Equality and Human Rights Implications

43. The TUPE transfer of two staff was conducted with appropriate advice and guidance from the Council's People and Legal Services and with input from DMB Trade Union.

Recommendations

44. The Internal Audit Annual Plan 2024-25 be approved.
45. The updates on progress on work undertaken and the implementation of high importance recommendations be noted.
46. The ending of the delegation agreement to provide internal audit services to Leicester City Council be noted.
47. The forthcoming changes to the Public Sector Internal Audit Standards including the proposal to introduce a Code of Practice for the Governance of Internal Audit in UK Local Government be noted.

Background Papers

The Constitution of Leicestershire County Council

Reports to: -

County Council (22 March 2017) – Discharging the City Council’s Internal Audit Function

<https://democracy.leics.gov.uk/documents/s127463/REPORT%20OF%20THE%20CORPORATE%20GOVERNANCE%20COMMITTEE%20B.pdf>

Corporate Governance Committee (20 May 2024) - Internal Audit Service Progress Against 2023-24 Plan and Revised Annual Planning Methodology

<https://democracy.leics.gov.uk/documents/s182661/Internal%20Audit%20Service%20-%20Progress%20against%202023-24%20plan%20and%202024-25%20planning%20methodology.pdf>

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix 1	Internal Audit Plan 2024-25
Appendix 2	Summary of Internal Audit Service work undertaken between 20 April and 29 August 2024.
Appendix 3	High Importance recommendations 29 August 2024

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