



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 30 OCTOBER 2024

INTERNAL AUDIT SERVICE - PROGRESS AGAINST THE 2024-25

INTERNAL AUDIT PLAN AND INTERNAL AUDIT UPDATES

REPORT OF THE CONSORTIUM TREASURER

Purpose of the Report

1. The purpose of this report is to provide the Finance and Audit Subcommittee (the Subcommittee) with: -
 - a. A summary of work undertaken by Leicestershire County Council's Internal Audit Service (LCCIAS) during the period 1 February to 14 October 2024.
 - b. The outcome of the independent external quality assessment (EQA) of Leicestershire County Council's Internal Audit Service.
 - c. Information on consultation issued by the Relevant Internal Audit Standard Setters on proposed changes to the Public Sector Internal Audit Standards (PSIAS)
 - d. Information on consultation issued by CIPFA on proposals to introduce a Code of Practice for the Governance of Internal Audit in UK Local Government

Background

2. The Consortium Treasurer (the Treasurer) is responsible for the proper administration of ESPO's financial affairs. In accordance with ESPO's Financial Regulations Rule 15, specific responsibility for arranging a continuous internal audit is delegated to the Treasurer. Under its terms of reference, the Finance and Audit Subcommittee (the Subcommittee) should receive and approve Internal Audit annual reports (annual plans, progress and annual reports, and the Internal Audit Charter), escalating any high importance recommendations and significant governance concerns to the Management Committee for review. The Subcommittee also monitors the adequacy and effectiveness of the internal audit service provided to ESPO. To achieve this, the Subcommittee is provided with periodic progress reports.

3. The audits undertaken are based on the Annual Internal Audit Plan (the Plan). Variations to the Plan can occur but need to be considered with and agreed by the Treasurer and the Director of ESPO.
4. The 2024-25 Plan was approved by the Subcommittee at its meeting on 14 February 2024. The scope of the audits and progress against them is shown in Appendix 1.

Summary of Progress

Audit Opinion:

5. Where audits undertaken are an 'assurance' type i.e., the auditor is able to objectively examine evidence for the purpose of providing an independent assessment, then an 'opinion' can be given i.e., the level of assurance that material risks are being managed. There are four levels of assurance: full; substantial; partial; and little.
6. On occasions, the audit might require a high importance (HI) recommendation, denoting that (based upon a combination of probability and impact) in our opinion a significant weakness either exists or potentially could arise and therefore the systems objectives are seriously compromised. A report that has a HI recommendation would not normally get an opinion above partial assurance. Exceptions would be where the controls are sound but there is a high importance efficiency recommendation.
7. The sum of individual engagement opinions assists the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy of ESPO's control environment, comprised of its governance, risk management and internal control framework
8. Consulting/advisory audits do not result in an opinion but are taken into account in the HoIAS annual opinion.

High Importance (HI) Recommendations

9. It is pleasing to note that for 2023-24 the outstanding HI recommendation on Cyber Security was closed off in August. To date 2024-25 coverage has not resulted in any high importance recommendations and/or partial opinion reports and there are no legacy high importance recommendations from previous financial years.

2024-25 Progress to date

10. A summary of progress is as follows: -

<u>Type</u>	<u>Number</u>	<u>Opinion</u>	<u>Reference</u>
Current year completed to at least draft report stage or on-going consultancy work	8	1 x Prior Year allocation to finalise 23-24 audits 3 x Draft Reports	24-25 – A 5 x Advice concluded Covering prior year audits: 23-24 (F, J, N. O & R). 3 x Final Report – Substantial Assurance Covering prior year audits: 23-24 (H, L & M). Annual Governance - Areas for further development – Ref 24/25 (B) Cyber Security – Ref 24/25 (C) Warehouse Expansion - Risk Mitigation Temporary Revised Ways of Working – Ref 24/25 (G)
Work in progress	17	N/A currently as audits are at various stages	24-25 (D to F & H to U)

11. There are valid reasons for audits that are currently classified as work in progress for example:

- Needing to be undertaken in the final quarter due to sample size requirements
- Work not due yet/purposely arranged for a later quarter
- Timeliness of conclusion e.g. Two audits relating to the warehouse expansion project, dividend payment etc
- Timetabled around changes to legislative requirements e, g, Procurement Act
- On-going work throughout the financial year

12. At this period in the financial year, reasonable assurance can be given that the audits are on track to be delivered subject to the usual caveats i.e.
- Actual time required to complete an audit being longer than budgeted
 - Any work that logically straddles more than one financial year
 - Unforeseen final quarter resourcing issues for either ESPO or Internal Audit
13. The Appendix summarises progress against the 2024-25 plan. Audit reference numbers (in the sequence of the agreed internal audit plan) and type (governance, risk management and internal control) have been added to track each audit's progress.

Outcome of the Independent External Quality Assessment of LCCIAS

14. In 2012/13 a common set of standards applicable to internal audit in the UK public sector (the UK Public Sector Internal Audit Standards (PSIAS)) were developed and issued. The current PSIAS were last updated in March 2017. A requirement of the PSIAS is that an external quality assessment (EQA) of the internal audit function's overall conformance with the Standards is conducted once every five years by a qualified, independent assessor, or assessment team from outside the organisation.
15. At its meeting on 14 February 2024, the Subcommittee was informed that LCCIAS had commissioned Robin Pritchard, a very experienced internal audit and risk professional, to undertake an EQA by March 2024. The assessment would be based upon a review (validation) of an evidenced internal self-assessment exercise; it was to be undertaken remotely and conducted in two stages with a readiness check towards the end of January before a final and full report in March/April (the outcome of which was to be reported to the Subcommittee at its meeting in October 2024).
16. The assessor produced their final report in early May. It stated: -

The Leicestershire County Council internal audit service is delivering to a standard that generally conforms (*) with the Public Sector Internal Audit Standards.

(*) 'Generally Conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. The assessor considered LCCIAS compared very favourably in benchmarking against other Local Authorities. Six areas of good practice were reported and (as was expected) four areas for further improvement. An action plan is being developed.

17. The full EQA report can be found at: -

<https://democracy.leics.gov.uk/documents/s182668/Appendix%203%20-%20Final%20report%20-%20External%20Quality%20Assessment.pdf>

Consultation issued by the Relevant Internal Audit Standard Setters on proposed changes to the Public Sector Internal Audit Standards (PSIAS)

18. In January 2024, the Institute of Internal Auditors published new Global Internal Audit Standards (GIAS). The GIAS 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 new GIAS 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 GIAS will be effective from 9 January 2025.
19. The authority for setting standards for internal audit in the United Kingdom public sector rests with the Relevant Internal Audit Standard Setters (RIASS) and CIPFA represents the interests of local government across the United Kingdom. To support the development process, the UK public sector Internal Audit Standards Advisory Board (IASAB) was created. The IASAB has considered the content of the new GIAS and determined that they are applicable to the internal audit of UK public sector bodies subject to a small number of additional requirements and interpretations, including one case where a GIAS requirement is replaced by a UK public sector requirement. On 3 October, the IASAB began consultation on proposals to replace the current UK PSIAS (which will remain in force for internal audit work relevant to the year ending 31 March 2025). Thereafter, internal auditors in the public sector will apply the GIAS, subject to the interpretations and requirements of a short *Application Note: Global Internal Audit Standards in the UK public sector* which is attached as Appendix 2.
20. The Application Note applies the unamended text of the GIAS together with interpretations of GIAS requirements in the specific circumstances which are expected to apply across the UK public sector, and some additional requirements which are essential for the practice of internal audit in the UK public sector but are not set out in the GIAS. These mainly have the effect of preserving those interpretations and additional requirements in the current UK PSIAS which are not already encompassed in the main text of the GIAS. They include specific mention of requirements for annual opinions and governance statements, and a presumption that Heads of Internal Audit (formally known as chief audit executives in the GIAS) will be both professionally qualified and have appropriate public sector skills and knowledge.
21. There are concerns amongst Local Government Heads of Internal Audit that the implementation of the new standards will significantly impact their time. However, the IASAB does not anticipate any significant problems and does not anticipate a requirement for transitional guidance beyond its clear

statement that the existing PSIAS will continue to apply to internal audit work carried out until 31 March 2025. Consultation is scheduled to end on 31 October and the IASAB is requesting views on whether: -

- a. The proposed public sector requirements and interpretations are appropriate
 - b. There are any other amendments to the existing public sector additions that should be made
 - c. Any transitional arrangements would assist with practical implementation.
22. The HoIAS has attended engagement webinars and has agreed with his Head of Internal Audit colleagues that there should be a collective response to the consultation from the Councils' Audit Network. He will advise the Subcommittee at its meeting in February of the outcome and next stages.

Consultation issued by CIPFA on proposals to introduce a Code of Practice for the Governance of Internal Audit in UK Local Government

23. Within the new GIAS, Domain III is fundamental since it relates to the 'Governing the Internal Audit Function' and explains that appropriate governance arrangements with boards and senior management are '**essential conditions**' to fulfil the 'Purpose of Internal Audit'.
24. These essential conditions are needed to allow effective internal audit practice and for internal auditors to conform with GIAS (UK public sector). The new GIAS recognised that in the public sector, governance structures or other laws or regulations may impact on how the essential conditions can be applied. This is the case in UK local government, where there isn't a straightforward replacement for the 'board' as described in GIAS. Elected representatives are ultimately those charged with governance. Audit committees are non-executive advisory bodies with limited decision-making powers. Internal audit's primary mandate comes from statutory regulations rather than the decision of the audit committee.
25. On 3 October, CIPFA launched a consultation on its proposals to introduce a Code of Practice for the Governance of Internal Audit in UK Local Government (the Code). This is attached as Appendix 3. The Code would apply to all principal authorities in UK local government. By ensuring effective arrangements for internal audit, authorities would 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 GIAS, but in a way that is appropriate for UK local government.

26. There are three main provisions (and nine sub provisions) within the Code: -
- a. Providing authority for internal audit – covering its mandate, charter and support for internal audit
 - b. Positioning internal audit independently – covering organisational independence and qualifications of the Head of Internal Audit
 - c. Oversight of internal audit – covering Audit Committee interaction, resources, quality and external quality assessment (EQA)
27. 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.
28. CIPFA is suggesting that conformance to the 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.
29. Consultation on the proposed Code is scheduled to end on 30 November. CIPFA is inviting responses to the consultation from all those with an interest in internal audit in the UK local government sector, including audit committee members, senior managers in local government, internal auditors, those in governance roles, and stakeholders.
30. The HoIAS has attended engagement webinars on the proposals. He will consult with the Chair of the Subcommittee, the Director of ESPO and the Consortium Treasurer and Secretary on the proposals and submit a response on behalf of ESPO to CIPFA. He will advise the Subcommittee at its meeting in February of the outcome and next stages.

Recommendation

31. That the Committee notes: -
- a. the progress against the 2024-25 Plan
 - b. that there are no high importance recommendations within the Committee's domain
 - c. the outcome of the independent external quality assessment of Leicestershire County Council's Internal Audit Service was positive, and an action plan is in place
 - d. consultations on implementing new Internal Audit Standards and proposals for a Code of Practice for the Governance of Internal Audit in UK Local Government are underway.

Equal Opportunities Implications

32. There are no discernible equal opportunities implications resulting from the audits listed.

Background Paper

Report to ESPO Finance & Audit Sub Committee 14 February 2024 – Annual Internal Audit Plan 2024-25
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=1014&MId=7517&Ver=4>

Officers to Contact

Declan Keegan, Consortium Treasurer
Declan.Keegan@leics.gov.uk
0116 305 7668

Simone Hines, Assistant Director (Finance and Commissioning),
Simone.Hines@leics.gov.uk
0116 305 7066

Neil Jones Head of Internal Audit and Assurance Service
Leicestershire County Council
Neil.Jones@leics.gov.uk
0116 305 7629

Appendices

- Appendix 1 Summary progress against 2024-25 audits as at 14 October 2024
- Appendix 2 Proposed Application Note - Global Internal Audit Standards in the UK public sector
- Appendix 3 Proposed Code of Practice for the Governance of Internal Audit in UK Local government