



CORPORATE GOVERNANCE COMMITTEE - 6 DECEMBER 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE – PROGRESS AGAINST 2024-25 AUDIT PLANS FOR LEICESTERSHIRE COUNTY COUNCIL AND EAST MIDLANDS SHARED SERVICES

Purpose of Report

1. The purpose of this report is to provide the Corporate Governance Committee (the Committee) with:
 - A. For Leicestershire County Council (LCC)
 - i. A summary of internal audit work undertaken during the period 1 September to 31 October 2024.
 - ii. An update on progress with implementing high importance (HI) recommendations at 31 October 2024
 - iii. Information on a re-prioritisation of the Leicestershire County Council 2024-25 audit plan
 - B. For East Midlands Shared Services (EMSS)
 - i. An update on the 2024-25 plan of audits for EMSS undertaken by Nottingham City Council Internal Audit (NCCIA)

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.

Summary of internal audit work undertaken

4. **Appendix 1** provides a summary of internal audit work undertaken for the County Council between 1 September and 31 October 2024 (a relatively short reporting period). Information is now provided on the movements of audits since the Committee last received a report (16 September 2024). For assurance audits (pages 1 to 5) 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 of assurance: full; substantial; partial; and little.
5. Several audits being reported have (or will be given) a partial assurance rating. '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'.
6. LCCIAS also undertakes consulting/advisory type audits - see Appendix 1 (pages 6 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).
7. Grants that were certified during the period appear on page 9.
8. 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, four 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.
9. 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 High Importance (HI) recommendations

10. The Committee is also tasked with monitoring the implementation of HI recommendations. **Appendix 2** 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.
11. To summarise movements within Appendix 2: -
- A. New**
 - i. Environment & Transport - Disclosure & Barring Checks (Transport Services)
 - B. In progress (earliest date reported first & number of extensions)**
 - i. Consolidated Risk - Surveillance and CCTV Audit (7)
 - ii. Children & Family Services – various schools' deficits (2)
 - C. Closed/No longer relevant.**
 - i. Environment & Transport - Highways works Bond Reimbursement (3)
12. At the time of compiling this report, two large and important audits of direct payments processes in both the Adults & Communities Department and Children & Family Services were at varying stages of draft report issued. Both reports contain several HI recommendations to change processes that will need to be agreed with management before reporting to the Committee in January.

Re-prioritisation of Leicestershire County Council Internal Audit Plan 2024-25

13. At its meeting on 16 September 2024, the Committee was presented with the Internal Audit Plan for 2024-25 for the County Council that had been agreed by Chief Officers on 25 July. The HoIAS' report explained how the net resource available had been provisionally allocated i.e. Excluding resource allocated to audits at ESPO, Pension Fund, Fire Service and City Council and non-internal audit functions (risk management, annual governance statement etc).
14. The Committee was advised that extensive effort had gone into constructing the 2024-25 Plan, but it needed to be recognised that it would only be a statement of intent, and there was 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 HoIAS advised that the plan could vary very quickly and might 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 larger/longer than planned in terms of testing required and chasing responses
 - A rise in unplanned work e.g. investigations, s151 requests, involvement in projects etc
15. The HoIAS informed that rigorous reviews of progress against plan and variances in resources would need to be undertaken. Utilising information from the Service's time recording system, the HoIAS has conducted a position statement at 31 October. This shows (in days): -

	<u>1/4</u>	<u>31/10</u>	<u>+/-</u>	<u>Reason</u>
<u>Net resource available</u>	<u>1,463</u>	<u>1,371</u>	<u>-92</u>	A
<u>Allocated (1/4) & incurred (31/10)</u>				
LCC audits including contingency 34 days	1,170	917	253	B
EMSS audits - reports, HoIA annual plan etc	10	10	0	C
Counter Fraud - proactive & advisory	35	32	3	D
<u>Sub-total LCC Audit & Counter Fraud</u>	<u>1,215</u>	<u>959</u>	<u>256</u>	
Developing the IA & CF Service	34	44	-10	E
LCC Corporate requirements	46	26	20	F
Planning, allocation & reporting	89	95	-6	G
Servicing CGC & Advising Officers	79	50	29	H
<u>Sub-total managing the IA & CF functions</u>	<u>248</u>	<u>215</u>	<u>33</u>	
<u>Total allocated to IA & CF functions</u>	<u>1,463</u>	<u>1,174</u>	<u>289</u>	

16. Accepting that estimates of initial allocations may have been inaccurate, some reasons for the larger variations are: -

A. A mix of: -

- i. Appointment to a known vacancy has slipped and a new vacancy will arise from mid-December. Use of agency for the rest of the year is being considered to recoup some of the days lost.
- ii. Whilst some medical absences were known and built into the original plan, actual time lost (including absence management time) has been significantly greater.
- iii. More time than was planned was incurred in terminating the arrangements to provide internal audit to Leicester City Council.
- iv. Some non-audit overheads need reviewing in case of any data quality issues.

B. **Appendix 3** provides an analysis of the approved annual plan and shows that time incurred (917 days) relates to audits that are: -

- i. Finalised: Planned = 82 days compared to 107 days incurred – this includes audits that were omitted from the approved plan and audits(investigations) added since the approval of the plan at the 16 September committee. Time will be moved from the original contingency
- ii. In progress: Planned = 565 days Incurred = 287 days. The HoIAS will continue to review scope and status to try to ensure these audits stay within planned time
- iii. Not started: Planned = 489 days Incurred = 489 days (for ‘balancing/reconciliation since the ‘actual’ incurred days at 31 October is zero). Appendix 3 (pages 16 to 18) show that the HoIAS has begun a review of these audits to ascertain if they can be postponed, removed, shortened in scope etc from December. At the time of compiling this report, E&T had confirmed that four grant audits would no longer be required, but this information was received too late to amend data. Any changes would need to reflect whether risk to the Council’s control environment would increase. A further report will be brought back to the Committee.
- iv. If no changes are made, then a minimum of 767 days would be required to complete audits in progress and audits not started. This assumes that individual audit budgets can be met and there are not any management requests for new audits or postponements.

- v. In terms of the number of audits planned and completed, Appendix 3 can be summarised as follows (with a comparison to the previous position reported to Committee on 16 September): -

<u>Cut-off date for reporting</u>	<u>14/8</u>	<u>31/10</u>
Number of audits approved by Chief Officers 25 July	145	145
Additions – omitted, split bulk allocations, new	33	59
Total audits	<u>178</u>	<u>204</u>
Audits finalised (29% of total audits)	43	60
Audits at various stages of progress (44%)	58	89
Subtotal audits finalised/in progress (73%)	<u>101</u>	<u>149</u>
Grant certifications not started by reporting date (7%)	15	15
Audits not started by reporting date (20%)	62	40
Subtotal audits not started – postpone? (27%)	<u>77</u>	<u>55</u>
Balance to above	<u>178</u>	<u>204</u>

- C. Relates to the time involved in supporting arrangements for Nottingham City Council Internal Audit to provide 2023-24 reports and a 2024-25 annual plan. The allocation has been used but time will continue to be incurred.
- D. Significant front end of year investment in policy and procedure reviews, developing CF training and guidance and developing avenues for reporting fraud.
- E. Predominantly research and training for the forthcoming implementation of new internal audit standards. This will increase with the demands required from now up until implementation in April 2025.
- F. Perhaps overestimated but was based on previous year trends
- G. Significant investment in the strategic and annual planning and reporting methodology.
- H. This is low so may have been overestimated but time will continue to increase as there is now an additional committee.
17. The HoIAS will continue to review the plan position with the Assistant Director (Finance and Commissioning).

18. 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.

East Midlands Shared Service (EMSS) – Progress against 2024-25 Internal Audit Plan

Background

19. Nottingham City Council (NCC) and Leicestershire County Council (LCC) operate a partnership, East Midlands Shared Services (EMSS) to deliver transactional HR and finance services on a single system. Nottingham City Council Internal Audit (NCCIA) is the designated internal audit provider for EMSS.
20. The Annual Internal Audit Plan is agreed at the EMSS Joint Committee (the Joint Committee) usually in March and is subsequently reported to Leicestershire County Council's (LCC) Corporate Governance Committee (the Committee). However, due to concerns raised in relation to the audit approach being suggested and the resources available, the 2024-25 Audit Plan had not been approved at neither the March nor June Joint Committees.
21. At its meeting on 16 September 2024, the Committee received the NCCIA Interim Head of Internal Audit's annual report and opinion on EMSS audits for the year 2023-24 and a progress update against planned internal audit work (IA) for the year 2024-25. Rajeev Dasgupta (Interim Head of Service Improvement for Risk, IA and Insurance) and Parama Datta (Interim Head of Internal Audit) presented the report and confirmed that the EMSS audit plan for 2024/25 had been approved at Joint Committee that morning.
22. The Interim Head of Service Improvement explained that as staff shortages continued to be an issue, it would not be possible for NCCIA to complete the 2024-25 EMSS audit without supplementing its resources. It was therefore tendering for additional support and additional resources had been approved by NCC's Deputy Section 151 Officer. A review was underway to review the NCCIA function to ensure it was able to meet both NCC internal audit requirements and those of EMSS.
23. It was intended that the EMSS Audit Plan would be delivered in full by the end of the financial year (31 March 2025). All audits would be full audits in line with the Audit Plan. Two would be conducted in November 2024 and January 2025 and others would then commence in January 2025 in time for reporting to the Joint Committee in March 2025. Payroll would be considered as part of the first tranche of work to begin in November. NCCIA had made a commitment to improve its links with the County Council and to ensure monthly updates were provided to ensure both partners were kept fully informed.
24. The Chairman welcomed the information now provided, but maintained there was still some degree of uncertainty, particularly regarding the additional resources required to support the 2024/25 audit and so moved that a joint

letter be sent by him and the Lead Member for Resources, to NCC's Audit Committee Chair, seeking written assurance of the planned approach to deliver the 2024-25 audit on time, to provide monthly updates and to keep in regular contact with County Council officers and in particular regarding the allocation of resources necessary to do this, such resources having been agreed by the Commissioners. This letter was sent on 23 September.

Important actions since the Committee on 16 September 2024

25. At the end of September, the Interim Head of Service Improvement at NCC informed that NCCIA priorities had been refocused and as a result, they now had NCCIA resources allocated to the EMSS plan for 2024-25. The Interim Head of Internal Audit would directly oversee the work performed to ensure the quality and timeliness of the service provided to EMSS.
26. In early October productive discussions were had between NCCIA and EMSS on the scope and timing of EMSS 2024-25 audits, sharing information, relevant contacts and roles and responsibilities.
27. On 1 November, a response to the Chairman's letter of 23 September was received from the NCC Audit Committee Chair (Ms Williams). The Chairman was notified that whilst NCC's letter offered some evidence of progress against the first three assurances sought, because the IA function review had not been completed and there were no considered options for future delivery ready to be discussed with EMSS, there had not been any further communication with LCC officers discussing options for 2025-26 and beyond in time for the EMSS Joint Committee meeting on 9 December.
28. The Chairman requested that an update be provided in this report. He agreed that a further reminder should be sent to NCCIA officers to liaise with LCC and EMSS officers regarding future options for 2025-2026 and beyond, to report to the Joint Committee on 9 December.
29. On 22 November, NCC reported that the review of NCCIA was complete and a report identifying options for ways that NCC could consider running the IA function in the future was being compiled. Options being put forward for consideration by NCC senior leadership include (i) enhance and deliver IA using an NCC team, (ii) enhance and deliver IA with a combination of NCC internal staff and resource support from one or more co-sourced providers, or (iii) work in partnership with an established external IA provider who takes on delivery of IA for NCC, or (iv) a transitional hybrid model using a combination of some of the other options. For all options, NCC is considering the IA work that NCC does for EMSS every year to be an integral part of NCCIA's responsibilities/workload. The report is going to be presented to NCC leadership imminently for them to consider their preferred way forward. A decision is expected sometime in early 2025 and before the 2024-25 IA work for EMSS is completed. Whilst LCC officers have not yet been part of any detailed discussions on the various options or the implications for EMSS, the Interim Head of Service Improvement has given assurances that there will be

engagement with EMSS and LCC as the preferred option or options for the future is decided.

30. On 27 November, NCCIA reported that three audits (not the originally planned two) had started and they were expected to be completed before Christmas with reporting planned for January 2025. The fourth audit (IT) is currently being scoped/planned with fieldwork starting in January 2025 and reporting by March. This has been confirmed by the Head of EMSS.
31. Further updates will be provided to the Committee at future meetings.

Resource implications

32. 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 is time and highlights a single point of failure. A further vacancy at Assistant Auditor level will occur from mid-December. Agency staff will be employed with funding available from vacancies.

Equality Implications

33. None

Human Rights Implications

34. None

Recommendations

35. The Committee is recommended to:
 - (a) Note progress on internal audit work undertaken during the period 1 September to 31 October 2024, the implementation of high importance recommendations and the re-prioritisation of the Leicestershire County Council 2024-25 Audit Plan;
 - (b) Note the update on the Audit Plan for EMSS for 2024-25 and options for future years.

Background Papers

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>

Corporate Governance Committee (16 September 2024) - Internal Audit Service
2024-25 Plan, Progress and Updates

<https://democracy.leics.gov.uk/documents/s185248/Internal%20Audit%20Service%20-%202024-25%20Plan%20and%20progress%20final.pdf>

Corporate Governance Committee (16 September 2024) – East Midlands Shared
Service – Internal Audit Work Undertaken by Nottingham City Council

<https://democracy.leics.gov.uk/documents/s185207/East%20Midlands%20Shared%20Service%20Internal%20Audit%20Work%20Undertaken%20By%20Nottingham%20City%20Council%20-%20final.pdf>

Circulation under the Local Issues Alert Procedure

None.

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Appendices

Appendix 1	Summary of Internal Audit Service work undertaken between 1 September and 31 October 2024.
Appendix 2	High Importance recommendations 31 October 2024
Appendix 3	County plan and actuals at 31 October 2024 sorted by status