



CORPORATE GOVERNANCE COMMITTEE - 31 MARCH 2025

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 November 2024 and 28 February 2025
 - ii. An update on progress with implementing high importance (HI) recommendations at 28 February 2025
 - iii. Progress against the 2024-25 Internal Audit plan.
 - B. For East Midlands Shared Services (EMSS)
 - i. Progress against the 2024-25 Internal Audit Plan and plans for the delivery of internal audit for 2025-26 and beyond.

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 November 2024 and 28 February 2025. Information is now provided on the movements of audits since the Committee last received a report (6 December 2024). For assurance audits (pages 1 to 5) an 'opinion' or rating 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 is some certainty that the grading will not change, some audits are currently showing as to be confirmed 'TBC'.
6. Page 5 of Appendix 1 contains the outcomes of three of the four audits undertaken by Nottingham City Council Internal Audit (NCCIA) at East Midlands Shared Services (EMSS). NCCIA audit outcomes similarly have four levels of assurance, significant, moderate, limited and no assurance. Further information on the current and future internal audit arrangements for EMSS is contained towards the end of this report.
7. 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. During this period, the ICT Auditor has continued to undertake or oversee a number of reviews of higher risk Information Security Risk Assessments (ISRA).
8. Grants that were certified during the period appear on page 9. The number of grants that need certification is declining.
9. Pages 9 to 13 of Appendix 1 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, 9 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 Service representation on several corporate project groups.
10. Finally, 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 14 and 15.

Progress with implementing High Importance (HI) recommendations

11. The Committee is also tasked with monitoring the implementation of High Importance (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.
12. To summarise movements within Appendix 2: -

A. New

- i. Chief Executives - City Council Coroner & Recharges
- ii. Adults & Communities – Direct Payments

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

- i. Consolidated Risk - Surveillance and CCTV Audit (8)
 - #2 - Requirements for ISRA and DPIA
 - #3 - Requirements for site visits
- ii. Children & Family Services – various schools' deficits (4)

C. Closed/No longer relevant.

- i. Consolidated Risk - Surveillance and CCTV Audit
 - # 1 – Revised contract

Two large audits of direct payments (DP) systems are mostly complete. The HI recommendations from the Adults DP audit were accepted and action plans are in place to implement them. A draft report on the Children's DP audit has been issued which contains HI recommendations but at the time of writing this report, management responses weren't due. The Children's recommendations seek to harmonise the two departments' systems ensuring better controls.

Additionally, following its audit on Adults DPs, Internal Audit Service is assisting the Transformation Unit in an exercise to ascertain if there is scope for savings to be made from any recovery from DP frauds.

Progress against the 2024-25 Internal Audit plan

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 Committee was advised that extensive effort had gone into constructing the 2024-25 Plan, but 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.

14. The HoIAS informed that rigorous reviews of progress against the approved plan and variances in resources would need to be undertaken. Utilising information from the Service's time recording system, the HoIAS has conducted a further position statement at 28 February. This shows: -

<u>Unless denoted all figures are in days</u>	<u>1/4</u>	<u>31/10</u>	<u>28/2</u>	<u>+/-</u>	<u>Reason</u>
<u>Net resource available</u>	<u>1,463</u>	<u>1,371</u>	<u>1,131</u>	<u>-332</u>	A
<u>Allocated (1/4) & recorded (31/10 & 28/2)</u>					
LCC IA including contingency 34 days	1,170	394	607	-563	B
Counter Fraud - proactive & advisory	35	32	42	+7	C
EMSS IA - reports, HoIA annual plan etc	10	10	12	+2	D
<u>Sub-total LCC IA & CF and EMSS IA</u>	<u>1,215</u>	<u>436</u>	<u>661</u>	<u>-554</u>	
Developing the LCC IA & CF Service	34	44	87	+53	E
LCC Corporate requirements	46	26	18	-28	F
Planning, allocation & reporting	89	95	142	+53	G
Servicing CGC & Advising Officers	79	50	79	0	H
<u>Sub-total managing LCC IA & CF</u>	<u>248</u>	<u>215</u>	<u>326</u>	<u>+78</u>	
<u>Total allocated/recorded on LCC IA & CF and EMSS IA</u>	<u>1,463</u>	<u>651</u>	<u>987</u>	<u>-476</u>	
<u>Percentage of original plan resources</u>	<u>100%</u>	<u>45%</u>	<u>67%</u>		
<u>Percentage of revised plan resources</u>	<u>-</u>	<u>47%</u>	<u>87%</u>		

<u>Time incurred outside of the IA plan resources that provides the HoIAS with assurances</u>	<u>1/4</u>	<u>31/10</u>	<u>28/2</u>	<u>+/-</u>	
Risk Management, Annual Governance and Insurance	<u>75</u>	<u>41</u>	<u>77</u>	<u>+2</u>	

15. Regarding the position of the internal audit (including counter fraud) plan, accepting that estimates of initial allocations may have been inaccurate, some reasons for the larger variations are: -

A. Net resource available - A mix of: -

- i. Not recruiting to vacancies i.e. for a Senior Auditor for all of the year plus an Auditor since mid-December held due to plans to review and redesign the Service and so permanent appointments to replace the vacant posts has been held back.
- ii. Higher than expected sickness absence.
- iii. More time than was planned was incurred in terminating the arrangements to provide internal audit to Leicester City Council. The additional time was recharged to Leicester City Council.

B. LCC audits - **Appendix 3** gives analysis of the approved annual plan and shows that time incurred (607 days) relates to audits that are: -

- i. Finalised: 287 days incurred compared to 227 days planned – this includes audits that were omitted from the approved plan and audits (mostly investigations) added since the approval of the plan at the 16 September committee. The original contingency (34 days) hasn't been allocated across audits.
- ii. In progress: Incurred = 307 days, Planned = 375 days. Most of these audits are very close to concluding but some will straddle the end of this year to be concluded early in the next. This is not uncommon.
- iii. Prepped: Incurred = 12 days Planned = 66 days. These are audits that have been scoped but will not formally begin until department management can dedicate staff resource. The audits may not fully start until next year.
- iv. Not started: Remaining planned time = 364 days. In conjunction with the Audit Managers, the HoIAS has begun a review of these audits to ascertain whether they are still required and are sufficiently high(er) risk to continue either starting them in March or in the early new year. The Assistant Director (Finance and Commissioning) has provided her preferences, and comments are being received from departments. These will be reviewed against planned (year 2) audits and new requests as part of the 2025-26 audit plan.

- v. Cancelled/duplicated: Several audits have been cancelled by departments and some audits had been duplicated in the original planning process especially original vagueness around E&T grants.
- vi. In terms of the number of audits planned and completed, Appendix 3 can be summarised as follows (with a comparison to the position at the previous cut-off date for reporting 31 October 2024): -

Cut-off date for reporting	28/2	31/10
Number of audits approved by Chief Officers 25 July	145	145
Additions – omitted, split bulk allocations, new/unplanned	77	59
Less cancelled or duplicated	-20	0
Total audits	202	204
Finalised = 49% of total audits (previous 29%)	100	60
At various stages of progress = 34% (44%)	68	89
Sub-total finalised/in progress = 83% (73%)	168	149
Grant certifications not started by reporting date = 0% (7%)	0	15
Audits not started by reporting date = 17% (20%)	34	40
Sub-total not started = 17% (27%)	34	55
Balance to total audits above	202	204

Whilst the number of audits at the end of February is almost the same as at the end of October there has been an increase in progressing them.

- C. Counter Fraud - Significant front end of year investment in policy and procedure reviews, developing CF training and guidance and developing avenues for reporting fraud.
- D. EMSS - Relates to the time incurred in supporting arrangements for Nottingham City Council Internal Audit to provide 2023-24 reports and an annual opinion: a 2024-25 annual plan and future arrangements. The allocation has been used but time will continue to be incurred.

- E. Developing the service - Predominantly research and training for the forthcoming implementation of new internal audit standards. This has impacted significantly on the HoIAS. This will increase with the demands required from now up until implementation in April 2025. Additionally, time was incurred finalising the External Quality Assessment and developing and maintaining a plan to implement associated actions.
 - F. LCC Corporate requirements - Perhaps overestimated the initial allocation required but was based on previous year trends
 - G. Planning, allocation & reporting - Significant investment in the strategic and annual planning and reporting methodology. Considerable time taken to conduct progress v plan reviews and needs to be made more efficient.
16. The HoIAS will continue to review the plan position with the Assistant Director (Finance and Commissioning).
 17. 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 and plans for the delivery of internal audit for 2025-26 and beyond

Background

18. 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.
19. Due to concerns raised in relation to the audit approach being suggested, and the resources available the 2024-25 EMSS Annual Internal Audit Plan (agreed at the EMSS Joint Committee (the Joint Committee) and subsequently reported to Leicestershire County Council's (LCC) Corporate Governance Committee) was not approved until 16 September 2024.

Important actions since Corporate Governance Committee 6 December 2024

20. There has been an ongoing dialogue with NCC officers on progress with 2024-25 audits and its plans to undertake the EMSS Internal Audit for 2025-26.
21. On 4 February, NCCIA issued its final report on payroll and HR to the Head of EMSS. Two further final reports on accounts receivable and accounts payable were issued on 14 February. All three reports were graded moderate assurance.

22. A further audit on System Administration and access controls, including a follow up on business continuity arrangements, was cancelled with (approval from the Head of EMSS) because NCCIA considered that Grant Thornton had covered sufficient work in its external audit and there was a risk of duplication.
23. The Interim S151 Officer at NCC has confirmed that a new interim Head of Internal Audit has been recruited and recruitment to other posts in the team is underway. NCC has committed to undertaking the internal audit for EMSS for 2025-26, although it is likely to be later in the financial year when resources are available. As the 2024-25 audits have only recently been completed, LCC has accepted this position but has asked to be kept informed of any changes.

Resource implications

24. Two vacancies remain unfilled and a backfill of agency staff has not occurred which has impacted delivery of the 2024-25 plan. The vacant Senior Auditor post (which traditionally leads on the corporate risk management arrangements) has affected not only internal audit delivery but also the HoIAS, who has had to undertake the risk management requirements.

Equality and Human Rights Implications

25. None

Recommendations

26. It is recommended that:
 - a) The updates on progress on work undertaken and the implementation of high importance recommendations (both at 28 February 2025) be noted;
 - b) The progress against plan position at 28 February 2025 is noted;
 - c) The update on the Audit Plan for EMSS for 2024-25 and options for future years be noted.

Background Papers

The Constitution of Leicestershire County Council

Reports to: -

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>

Corporate Governance Committee (6 December 2024) – Internal Audit Service Progress against 2024-25 Audit Plans for Leicestershire County Council and East Midlands Shared Services

<https://democracy.leics.gov.uk/documents/s187045/Internal%20Audit%20Service%20-%20Progress%20Against%202024-25%20Audit%20Plans%20for%20LCC%20and%20EMSS%20-%20final%20for%20Jo.pdf>

Circulation under the Local Issues Alert Procedure

None.

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Appendices

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|------------|---|
| Appendix 1 | Summary of Internal Audit Service work undertaken between 1 November 2024 and 28 February 2025. |
| Appendix 2 | High Importance recommendations 28 February 2025 |
| Appendix 3 | County plan and actuals at 28 February 2025 sorted by status |

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