



**CORPORATE GOVERNANCE COMMITTEE 24 NOVEMBER
2025**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**INTERNAL AUDIT SERVICE – PROGRESS AGAINST 2025-26
INTERNAL AUDIT PLAN AND HIGH IMPORTANCE
RECOMMENDATIONS**

Purpose of Report

1. The purpose of this report is to provide the Corporate Governance Committee (the Committee) with: -
 - a. A summary of work undertaken by the Council's Internal Audit Service during the period 1 April to 30 September 2025.
 - b. An update on progress with implementing high importance (HI) recommendations at 31 October 2025.
 - c. Progress against the 2025-26 Internal Audit plan

Background

2. The Global Internal Audit Standards for the UK Public Sector (GIAS UKPS) require the Head of Internal Audit Service (HoIAS) to develop risk-based plans to determine the priorities of the internal audit activity, aligned with the Council's priorities. These plans should cover a broad scope, enabling the HoIAS to provide an annual conclusion on the overall adequacy and effectiveness of the Council's control environment.
3. At its meeting on 31 March 2025, the Committee approved a plan of 1,485 days for Leicestershire County Council (LCC) as follows: -

<u>Resource allocated</u>	<u>Days</u>
LCC audits (including contingency)	1,140
East Midlands Shared Services audits ¹	10
Counter Fraud (proactive & advisory, policies & procedures)	45
Managing LCC internal audit & counter fraud functions	290
Total allocated ²	1,485

¹ East Midlands Shared Services (EMSS) audits are planned and undertaken by Nottingham City Council Internal Audit. However, the Head of Internal Audit Service for LCC engages with his counterpart at Nottingham to review plans and resources, individual audit reports, the annual report and opinion, and arrangements for reporting to this Committee.

² A further 80 days are allocated for the HoIAS to oversee the production of the Council's Annual Governance Statement, monitor and report on the corporate risk management framework and manage the Insurance Service.

4. 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

5. **Appendix 1** summarises internal audit work by the Internal Audit Service (the Service) for the County Council from 1 April to 30 September 2025. It includes audit movements since the last progress report (31 March 2025). Due to the longer reporting period, a significant number of audits are covered. For assurance audits (pages 1–7), an 'opinion' is usually provided on the level of assurance that material risks are managed. The four assurance levels are: full, substantial, partial, and little.
6. Several audits have received or will receive a partial assurance rating, typically given when at least one High Importance (HI) recommendation is made. HI recommendations indicate material risk that remains unless addressed promptly. Management must implement agreed actions without delay. HI recommendations and negative assurance ratings are reported to the Committee and tracked until resolved. In some cases, multiple lower-graded recommendations may collectively warrant targeted follow-up. Until draft reports are issued and ratings confirmed, some audits will show as TBC.
7. The Service also undertakes advisory type audits - see Appendix 1 (pages 8 to 10). 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 has overseen a number of reviews of higher risk Information Security Risk Assessments (ISRA).
8. Grants that were certified during the period appear on page 11. The number of grants that need certification is declining. Page 11 also includes a brief reference to the work the Service has conducted on investigations. More detail on these is provided in the Annual Counter Fraud Report (scheduled June 2026).

9. Pages 12 to 15 of Appendix 1 provide information on: -
 - a. '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.
 - b. Where 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, Internal Audit 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 monitors the implementation of High Importance (HI) recommendations. These are where material risk exposure is identified, **Appendix 2** shows the status as of 31 October 2025, including a brief summary of related issues. It also indicates whether managers agree to implement the recommendations and the target timescales. New or updated recommendations are highlighted in **bold font**. Items remain listed until auditors confirm implementation through re-testing where applicable. If deadlines are extended, management provides reasons and updates. A Chief Officer may be required to attend the Committee to provide information or answer questions
12. To summarise movements within Appendix 2: -
 - a. **New (note that the number is higher than normal due to an extended reporting period)**
 - i. Adults & Communities - Residential Settings Claiming for Deceased or Fictitious Residents
 - ii. Chief Executives – Registrars – income reconciliation
 - iii. Children & Family Services – Direct Payments
 - iv. Children & Family Services - Emergency Payments (Section 17 and 24 Payments)
 - v. Children & Family Services – SEN Assessments
 - vi. Consolidated Risk - Business Travel Documents
 - vii. Consolidated Risk - Travel & Subsistence - Approvals Hierarchy – see also closed
 - viii. Consolidated Risk - Identification, Knowledge and Prioritisation of Business Applications
 - ix. Consolidated Risk – Business Continuity Plans

b. In progress (longest outstanding reported first & number of extensions)

- i. Chief Executives - City Council Coroner & Recharges 1)
- ii. Adults & Communities – Direct Payments (1)

c. Closed/No longer relevant (longest outstanding reported first)

- i. Consolidated Risk - Surveillance and CCTV Audit
 - HI #2 - Requirements for Information Security Risk Assessments (ISRAs) and Data Protection Impact Assessments (DPIAs)
 - HI #3 - Requirements for site visits
- ii. Children & Family Services – various schools’ deficits (4)
- iii. Environment & Transport - Disclosure & Barring Checks – Transport Services
- iv. Consolidated Risk - Travel & Subsistence - Approvals Hierarchy

13. Two major audits of Adults’ and Children’s direct payments (DP) systems are complete, with all HI recommendations accepted and action plans in place. However, implementation of the recommendations has been delayed by significant LCC resources needing to be diverted towards nationwide issues with the prepaid card provider, Prepaid Financial Services (PFS).
14. PFS provides prepaid card services for direct payment customers, partnering with over 30 councils nationwide. A card processor is essential for these services, enabling transactions such as card payments, account balance checks, fund transfers, PIN changes, and card loads. If the processor fails, administrators may lose system access, and cardholders could face delays or lose access to funds.
15. Many councils, including Leicestershire, are working with PFS to address an issue that began in mid-July 2025. Although some progress has been made, PFS still cannot provide standard reports, preventing Finance from completing full reconciliations until these reports are available.
16. PFS initiated an emergency migration to its in-house processing platform after breaches by its outsourced card processor and concerns of imminent service cessation. The migration, normally a 5–6 month project, was completed rapidly with minimal notice, causing widespread service disruption. Customers and cardholders experienced transaction failures, payment issues, restricted fund access, and significant system downtime for both users and administrators.
17. The migration has led to significant operational challenges for local authorities, including payment delays, system downtime, declined prepaid card transactions, and communication issues caused by inconsistent updates
18. The HoIAS will monitor progress and provide an update to the Committee.

Progress against the 2025-26 Internal Audit plan

19. On 31 March 2025, the Committee approved 1,485 days for the 2025–26 Internal Audit Plan, noting the need for flexibility to adjust in response to changes in the Council's business, risks, operations, programs, systems, controls, and resource variations.
20. The HoIAS reviews progress against the approved plan and resource variances using data from the Service's time recording system. A position statement as of 30 September 2025 shows the pro-rata resource allocation for six months, time recorded to date, and percentage variance. All figures are in days and rounded.

Table 1: Resource allocated 1 April & time recorded at 30 September

<u>Resource allocated & time recorded</u>	<u>1/4</u>	<u>Pro-rata 30/9</u>	<u>Time at 30/9</u>	<u>%</u>
LCC IA including contingency	1,140	570	356	62
EMSS IA - reports, HoIA annual plan etc	10	5	3	60
Counter Fraud - proactive & advisory	45	23	22	96
Management of LCC IA & CF	<u>290</u>	<u>145</u>	<u>141</u>	<u>97</u>
<u>Total allocated/recorded</u>	<u>1,485</u>	<u>743</u>	<u>522</u>	<u>70</u>
AGS, RM & Insurance	<u>80</u>	<u>40</u>	<u>66</u>	<u>165</u>

21. Time spent on LCC audits is slightly low because of not recruiting to two vacancies planned from 1 June 2025. However, this was countered by employing an agency from 1 August 2025 to hopefully the end of March 2026. Also, some overheads disproportionately higher at this time of year.
22. Additionally, time spent on the non-internal audit allocations (AGS, RM & Insurance) was significantly higher than pro-rata, especially overseeing Insurance Service matters (large issue, replacement MIS, renewals).

23. The table below shows the position with undertaking/progressing audits

Table 2: Audits planned 1 April and position at 30 September

Number of audits planned/approved 31 March 2025	133
Additions - originally omitted, split bulk allocations, new/unplanned	58
Total audits at 30 September	<u>191</u>
Less cancelled or duplicated	-3
Net audits 30 September	<u>188</u>

Position	No	%	Days used
Finalised	74	39	124
In progress	67	36	232
Sub-total finalised/in progress	<u>141</u>	<u>75</u>	<u>356</u>
Remaining planned time to complete in progress	-	-	202
Not started – grants	0	0	0
Not started – audits/contingency	47	25	454
Balance to net audits 30 September	<u>188</u>	<u>100</u>	<u>1,012</u>

24. Whilst the total days currently estimated to complete the full plan (1,012) is lower than the original 1,140 days originally planned and approved (table 1), it's unlikely this will occur for reasons such as additional resources aren't obtained and also the management of overruns on audits in progress and cancellations/new requests.
25. The HoIAS will continue to review the plan position with the Assistant Director (Finance, Transformation and Commissioning) and the Committee will continue to receive six monthly progress reports including any significant changes to the plan and reasons.

Resource implications

26. Two vacancies remain unfilled but has been compensated by an agency employee. One of the vacant posts 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

27. None

Recommendations

28. The updates on progress on work undertaken (at 30 September 2025) and the implementation of high importance recommendations (at 31 October 2025) be noted.
29. The progress against plan position at 30 September 2025 is noted.

Background Papers

The Constitution of Leicestershire County Council

Reports to: -

Corporate Governance Committee (31 March 2025) - Internal Audit Service Annual Plan 2025-26

<https://democracy.leics.gov.uk/documents/s189401/Internal%20Audit%20Service%20-%20Annual%20Plan%202025-26%20-%20final.pdf>

Appendix 1 – County Council Internal Audit Plan 2025-26

<https://democracy.leics.gov.uk/documents/s189402/Appendix%201%20-%20Internal%20Audit%20Annual%20Plan%202025-26.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 April and 30 September 2025. |
| Appendix 2 | High Importance recommendations at 31 October 2025 |

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