

Status of Report: Public

Meeting: Corporate Governance Committee

Date: 20 November 2024

Subject: Progress against the Internal Audit Plan 2024/25

Report by: The Head of Corporate Financial Services

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Leicestershire County Council**

For: Information Only

Purpose

1. The purpose of this report is to provide the Corporate Governance Committee (the Committee) with: -

- An update of progress against the Internal Audit Plan for 2024/25
- Information on two consultations on proposed changes to the Public Sector Internal Audit Standards

Recommendation

2. The Committee is asked to note the report and that:

- a) Two legacy partial assurance reports (relating to contract procedure rules and bank account changes respectively) containing high importance recommendations currently remain outstanding. These continue to be retested as part of the 2024/25 coverage and a further verbal update will be provided at the meeting in respect of the bank account changes recommendation;
- b) Whilst work is progressing well with the 2024/25 audit plan, and it remains at the stage anticipated for this time of year, a review of time incurred so far necessitates a discussion with the Treasurer and Monitoring Officer on whether some re-prioritisation is required; and
- c) Work will be required by the Head of Internal Audit Service to implement revised internal audit standards.

Executive Summary

3. One of the functions of the Corporate Governance Committee is to monitor the adequacy and effectiveness of the internal audit function and, specifically, to monitor progress against the internal audit plan through the receipt of periodic

progress reports. Background information on the statutory and constitutional requirements for internal audit, working arrangements and information on assurance gradings is contained in Appendix 2 to this report.

4. The Internal Audit Plan for 2024/25 was approved by the Committee at its meeting on 13 March 2024. Progress against planned work is summarised below and is then reported in more detail in Appendix 1. Updates to the 2024/25 plan since the last Committee are shown in **bold** font within the Appendix.
5. The approved plan identified auditable areas, which also included follow-up on the implementation of high importance recommendations, and an allowance for 'client' management activity (report to committees, planning, advisory etc.). The number of days purchased is 85 days per annum.
6. Two legacy partial assurance reports containing high importance recommendations (in respect of Contract Procedure Rules and BACS audits – regarding bank account changes) remain in the Committee's domain as these have not yet been addressed. Testing of bank account changes in a test environment has been satisfactory, however at the time of publication of this report, procedure notes, training and transfer to the live environment was still being undertaken. It is anticipated that these will be completed prior to the Committee, enabling a verbal update to be provided. The detail in respect of this is included at paragraph 13 below and in Appendix 1.

Progress against the 2024/25 Internal Audit Plan:

7. As reported previously to the Committee, there were four audits carried over into 2024/25, all of which have been finalised with substantial assurance.
8. There were eleven potential auditable areas within the approved 2024/25 Internal Audit plan (excluding any brought forward work detailed above). Of these eleven individual pieces of work, progress can be summarised as follows:
 - Two have been completed to final report stage
 - One has been completed to draft report stage
 - Seven current year audits are at various stages of work in progress.
 - One audit has not yet started.

Background

9. The Committee is provided with a summary report of internal audit work undertaken in the period since the last meeting. Where applicable, an individual 'opinion' on each audit assignment is reported, for example to what extent risk is being managed. The four levels of assurance are: full; substantial; partial and

little. Further details explaining the levels of assurance are included at Appendix 2.

10. An assurance type audit report containing at least one high importance recommendation (see Appendix 2) would normally be classified as 'partial' assurance. Consulting type audits might also result in high importance recommendations.
11. The current position (and any outcomes) as at 5 November 2024 has been mapped onto the plan agreed by the Committee at its meeting on 13 March 2024. This forms Appendix 1 and is summarised as:

| <u>Status of work</u> | <u>Additional Commentary</u> |
|--|---|
| Prior Year 2023/24 Reports | Reference in 2024/25 plan is 25/01 Comprise four final reports all with substantial assurance: <ul style="list-style-type: none"> • Key Financial Systems Reconciliations & Balances 23/24 (Ref 24/03) • Key Financials Payroll 23/24 - (Ref 24/04) • Key Financials Pensions 24/24 - (Ref 24/05) • Key ICT Controls 23/24 – (Ref 24/06) |
| Two audits at final report stage | ICT System and Process Connectivity (25/02) – Substantial Assurance Contract Procedure Rules and associated Policies and Processes – 25/08 |
| One audit at draft report stage | Addressing Implications of Pensions Judgements 25/10 |
| Seven audits are classified as various stages of work in progress: | Key Financial Systems – Reconciliations and Balances (25/03) Key Financials Payroll (25/04) Key Financials Pensions (24/05) ICT Controls (25/06) |

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|---------------------------|--|
| | <p>Counter Fraud National Fraud Initiative (25/07) – see Appendix 1 for more detail</p> <p>Procurement – 25/09 – see Appendix 1 for more detail</p> <p>Contingency - Emerging Issues Financial Monitoring – 25/12 – see Appendix 1 for more detail</p> |
| One audit not yet started | People Plan – 25/11 |

* May be utilised by the external auditor in planning their audit risk-assessment and their work in forming an opinion on the CFA's value for money arrangements.

Changes to Plan/Additional Time

12. The approved plan is a statement of intent and whilst every effort will be made to deliver it, it is recognised that this needs to be flexible, and it may be necessary to revise activities in response to changing circumstances or emerging risks. Therefore, during the year, Leicestershire County Council Internal Audit Service (LCCIAS) will report to the Committee any audits that will not be undertaken as part of the 85-day coverage and the rationale for such decisions, including where other lines of defence are deemed sufficient. Any additional audits that have been requested/identified will also be reported.
13. A detailed analysis of time recorded against planned audits has identified some variances which could affect overall plan performance. There are several reasons e.g. significant staff changes, time taken to address HI recommendations which need to be discussed with the Treasurer and Monitoring Officer in order to reach agreement on whether any changes to the plan may be required.

High Importance Recommendations

14. Two partial assurance reports and associated high importance recommendations currently require progress updates to be reported back to the Committee in order to provide assurance that they have been adequately addressed. Updates in respect of these audits are as follows:

| <u>Audit Name/Date</u> | <u>Ref</u> | <u>Area of focus/Date for review/date to report back to committee</u> |
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| Contract Procedure Rules and associated policies and procedures | Ref 22-09 | There are four recommendations to be addressed, of which two were to |

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| | (now superseded by Ref 24-08) | <p>be reviewed in the first quarter of the 2024/25 plan.</p> <p>The updated interim findings in respect of are:</p> <p><u>Centrally held contracts:</u></p> <ul style="list-style-type: none"> • Information still remains missing and/or out of date. • Additionally, two further contracts have expired and have not been updated on the contracts database <p><u>Procurement Training for staff:</u></p> <ul style="list-style-type: none"> • Revised training and associated policies and processes have been identified for completion by the Service by end January 2025. We will review these to ensure they incorporate wider key areas such as the procurement pipeline, the blue light database and the associated processing through Agresso and also to be assured that compliance monitoring incorporates ensuring training has been completed and that periodic benchmarking takes place. • We will also need to test that, where relevant, periodic benchmarking has taken place. <p>We are in the process of establishing with the service revised dates to be able to sign off these area of work as being mitigated to an acceptable standard.</p> |
| Accounts Receivables – BACS Payment Process (changes to bank accounts) | Ref 22/11 | <p>Three walk throughs have taken place in the test environment looking at both the client and web version and covering aspects such as:</p> <ul style="list-style-type: none"> • Profiles set up • Segregation of duties |

| | | |
|--|--|---|
| | | <ul style="list-style-type: none"> • Controls over the audit trail • Controls over update processes as a result of any system upgrades/patches etc <p>At the time of publication of this report, training and associated system documentation was being produced by the Service with a view to transferring the processes into the live environment on 14 November 2024.</p> <p>It is currently anticipated that we will be able to complete a walk through in the live environment in the period between 14 November and the Committee meeting in order to provide this Committee with a verbal update as to whether, subject to committee approval, this high importance recommendation can be considered mitigated to an acceptable level based on our testing undertaken.</p> |
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Consultations on proposed changes to the Public Sector Internal Audit Standards

15. At its meeting on 11 September 2024, the Committee was informed that two consultations were scheduled, the first on a replacement for the current Public Sector Internal Audit Standards and the second on a proposal by CIPFA to introduce Code of Practice for the Governance of Internal Audit in UK Local Government

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

16. 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.

17. 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 (including Fire and Rescue Services) 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 3.
18. 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.
19. 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 ended on 31 October.
20. The HoIAS has attended engagement webinars and has agreed with Head of Internal Audit colleagues that there should be a collective response to the consultation from the Councils' Audit Network. He will advise the Committee at its meeting in March 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

21. 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'.
22. 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 (including Fire and Rescue Services), 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.
23. 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 4 to the report. The Code would apply to all principal authorities in UK local government (including Fire and Rescue Services). 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.
24. The Code sets out the conditions for internal audit, consistent with existing CIPFA guidance and governance within the sector. To support this CIPFA has recently produced a Comparison of the Code of Practice for the Governance of Internal Audit in UK Local Government to Regulations and existing CIPFA guidance (see Appendix 5). 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.
25. 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)
26. 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.

27. CIPFA is suggesting that conformance to the Code is included in the annual governance statement and is undertaking a project to update its guidance on the annual governance statement so it will incorporate this requirement.
28. 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.
29. The HoIAS has attended engagement webinars on the proposals. He will consult with the Chair of the Committee, the Chief Fire and Rescue Officer, the Treasurer and the Monitoring Officer on the proposals and submit a response on behalf of the CFA to CIPFA. He will advise the Committee at its meeting in March of the outcome and next stages.

Report Implications/Impact

30. Legal (including crime and disorder)

Section 112 of the Local Government Finance Act 1988 requires that the CFA ‘...shall make arrangements for the proper administration of its financial affairs’ and to ensure that ‘...one of its officers has responsibility for the administration of those affairs’. Within the CFA this officer is the Treasurer, and this is reflected in the CFA’s Constitution.

The Accounts and Audit Regulations 2015 require under Part 2 ‘Internal Control’ at Regulation 5(1) that, ‘A relevant authority (including fire authorities) must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’.

31. Financial (including value for money, benefits and efficiencies)

There are no direct financial implications arising from this report. However, as a result of the work carried out, assurance regarding the operation of key financial systems is gained and there would be an expectation that implementing internal audit recommendations could improve effectiveness, efficiency and economy. – Collette Sutton Interim Head of Corporate Financial Services, Leicestershire Fire & Rescue (collette.sutton@leics-fire.gov.uk 0116 210 5555).

32. Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)

Internal audit provides reassurance that effective governance, risk management and internal control procedures are in place. Internal audit reports are used to inform the Treasurer and the Chief Fire and Rescue Officer of the detailed findings of the audit and highlight actions that are required to safeguard the CFA's interests.

33. Staff, Service Users and Stakeholders (including the Equality Impact Assessment)

None.

34. Environmental

None.

35. Impact upon Our Plan Objectives

The provision of a robust internal audit function assists both effective and efficient management and good corporate governance. This should assist with meeting the challenges outlined in the CFA's Finance and Resources and Governance Strategies.

Background Papers

Internal Audit Plan 2024-25 (Corporate Governance Committee - 13 March 2024)

<https://leics-fire.gov.uk/wp-content/uploads/2024/03/item-7.pdf>

<https://leics-fire.gov.uk/wp-content/uploads/2024/03/item-7-appendix-1.pdf>

Internal Audit Charter (Corporate Governance Committee - 13 March 2024)

<https://leics-fire.gov.uk/wp-content/uploads/2024/03/item-7.pdf>

<https://leics-fire.gov.uk/wp-content/uploads/2024/03/item-7-appendix-2.pdf>

Appendices

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| Appendix 1 | Progress against the Internal Audit Plan 2023/24 at 5 November 2024 |
| Appendix 2 | Statutory and constitutional requirements and working arrangements. |

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| Appendix 3 | Proposed Application Note - Global Internal Audit Standards in the UK public sector |
| Appendix 4 | Proposed Code of Practice for the Governance of Internal Audit in UK Local government |
| Appendix 5 | Comparison of the Code of Practice for the Governance of Internal Audit in UK Local Government to Regulations and existing CIPFA guidance |

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