

**Status of Report: Public**

**Meeting: Corporate Governance Committee**

**Date: 13 July 2023**

**Subject: Progress against the Internal Audit Plan 2022-23**

**Report by: The Treasurer**

**Author: Neil Jones, Head of Internal Audit and Assurance Service  
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 Plans for 2022-23 and 2023-24.

### **Recommendation**

2. The Committee is asked to note the report and in particular that:
  - a) All audits due to be completed within the financial year 2022/23 have now been finalised
  - b) Three other legacy partial assurance report ratings containing high importance recommendations remain outstanding and this has been reflected in Head of Internal Service Audit Opinion. Work is ongoing with the ACFO Service Support to bring more timely resolutions to these outstanding concerns.
  - c) Work is progressing well with the 2023/24 audit plan
  - d) That the audit related to Learning and Development (24/10) in the 2023/24 Plan, detailed in paragraph 12 below, has been deferred and will be replaced with an alternative audit of the Risk Based Inspection Programme.

### **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 Plans for 2022/23 and 2023/24 were approved by the Committee at its meetings on 9 March 2022 and 15 March 2023 respectively.

Progress against planned work is summarised below and is then reported in more detail in Appendix 1. Updates to the 2022/23 plan are shown in **bold** font.

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.

Progress against the 2022/23 Internal Audit Plan:

6. Excluding the follow up of high importance recommendations, there were 11 potential auditable areas that were approved (plus three prior year reports to finalise) resulting in 14 areas in total. Of these 14 individual pieces of work, progress can be summarised as follows:
  - All three prior year reports (2021/22 financial year) have been completed – this has been reported previously
  - Ten 2022/23 financial year audits have been finalised
  - One audit was agreed to be deferred into the 2023/24 Internal Audit Plan
7. Three legacy partial assurance reports containing high importance recommendations (Contract Procedure Rules, Key ICT Controls and BACS audits) respectively remain in the Committee's domain as further testing has indicated these have not yet been addressed. Detail is included at paragraph 14 below.

Progress against the 2023/24 Internal Audit Plan:

8. Excluding the follow up of high importance recommendations and the prior year reports to finalise, there were 10 potential auditable areas that were approved (plus eight prior year reports to finalise) resulting in 18 areas in total. Of these 18 individual pieces of work, progress can be summarised as follows:
  - All eight prior year (2022/23 financial year) reports have been completed
  - Three current year (2023/24) audits are at draft report stage
  - Five current year audits are at various stages of work in progress
  - One current year audit has not yet started
  - Subject to approval, one current year audit is likely to be deferred with a replacement audit currently being discussed, the rationale for which is detailed further below and in the appendix to this report.

## **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.

**Progress against the 2022/23 Internal Audit Plan:**

11. The current position (and any outcomes) as at 28 June 2023 has been mapped onto the plan agreed by the Committee at its meeting on 9 March 2022. This forms the first part of Appendix 1 and is summarised as:

<u>Status of work</u>	<u>Additional Commentary</u>
Three Prior Year 2021/22 Reports Completed <i>Reference in 2022/23 plan is 23/01</i>	<ul style="list-style-type: none"> <li>• Workshop Services – original reference 22/1</li> <li>• ICT Controls 2021/22 – 22/7</li> <li>• Key Financial Systems – Reconciliations and Balances 2021/22 – 22/3</li> </ul>
Two completed areas of work in 2022/23	<ul style="list-style-type: none"> <li>• Counter Fraud: National Fraud Initiative – 23/08 – Analyse stage</li> <li>• Emerging Issues Advice – 23/12</li> </ul>
Eight areas of work have been finalised	<ul style="list-style-type: none"> <li>• Safeguarding - 23/02</li> <li>• Fire Protection - 23/03</li> <li>• Key Financial Systems – Reconciliations and Balances 2022/23 (*) – 23/04</li> <li>• Key Financials Payroll (*) – 23/05</li> <li>• Key Financials Pensions (*) – 23/06</li> <li>• ICT Controls 2022/23 (*) – 23/07</li> <li>• Human Resources - 23/10</li> <li>• Counter Fraud: Bank Mandate Fraud – 23/11</li> </ul>
One area of work deferred into 2023/24.	<ul style="list-style-type: none"> <li>• Contract Procedure Rules and associated Policies and Processes – 23/09</li> </ul>

\* 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.

**Progress against the 2023/24 Internal Audit Plan:**

12. The current position (and any outcomes) as at 28 June 2023 has been mapped onto the plan agreed by the Committee at its meeting on 15 March 2023. This forms the second part of Appendix 1 and is summarised as:

<u>Status of work</u>	<u>Additional Commentary</u>
<p>Eight Prior Year 2022/23 Reports Completed</p> <p><i>Reference in 2023/24 plan is 24/01</i></p>	<ul style="list-style-type: none"> <li>• Safeguarding – 23/02</li> <li>• Fire Protection – 23/03</li> <li>• Key Financial Systems – Reconciliations and Balances 2022/23 (*) – 23/04</li> <li>• Key Financials Payroll (*) – 23/05</li> <li>• Key Financials Pensions (*) – 23/06</li> <li>• ICT Controls 2022/23 (*) – 23/07</li> <li>• Human Resources – 23/10</li> <li>• Counter Fraud: Bank Mandate Fraud – 23/11</li> </ul>
<p>Three areas of work at draft report stage</p>	<ul style="list-style-type: none"> <li>• Counter Fraud National Fraud Initiative – 24/07 – Report stage</li> <li>• Contract Procedure Rules and associated Policies and Processes – 24/08</li> <li>• Contingency – Emerging Issues – Counter Fraud VAT Numbers – 24/11a</li> </ul>
<p>Five areas of work at various stages of work in progress</p>	<ul style="list-style-type: none"> <li>• Key Financial Systems – Reconciliations and Balances – 24/03</li> <li>• Key Financials Payroll – 24/04</li> <li>• Key Financials Pensions – 24/05</li> <li>• ICT Controls – 24/06</li> <li>• Human Resources – Recruitment and onboarding processes – 24/09</li> </ul>
<p>One area of work not yet started</p>	<ul style="list-style-type: none"> <li>• ICT System and Process Connectivity – 24/02</li> </ul>
<p>One area of work where a change to plan has been requested</p>	<ul style="list-style-type: none"> <li>• Learning and Development 24/10 (suggestion from service to replace with a new audit in relation to the Risk Based Inspection Programme (RBIP))</li> </ul> <p>This decision is due to a service restructure which has seen the Learning and Development roles and responsibilities move to another Directorate. To give the new managers the opportunity to embed within the function, it has been agreed that the audit be deferred for a period of time.</p>

\* 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

13. The approved plan was 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 will also be reported. At the last meeting of this Committee, it was agreed that coverage in respect of Contract Procedure Rules and associated Policies and Processes would be deferred into 2023/24. In respect of the 2023/24 Internal Audit Plan, as detailed immediately above, the ACFO has requested that the Learning and Development Audit is now replaced by an audit of the Risk Based Inspection Programme.

High Importance Recommendations

14. Three 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>
Contract Procedure Rules	Ref 22-09	<p>As reported previously, there was a slight delay in completion of the coverage whilst revised roles and responsibilities for implementation of the previous audit recommendations were confirmed.</p> <p>The areas that are currently being re-tested relate to:</p> <ul style="list-style-type: none"> <li>• All contract documentation being held on the Blue Light Database (BLPD)</li> <li>• All contracts located or a copy obtained from the supplier</li> <li>• Holding records electronically on the database.</li> <li>• Training procuring managers and administrators</li> <li>• Monitor successful delivery of training</li> </ul>

		<ul style="list-style-type: none"> <li>• Periodic benchmarking or market testing is completed and retained to ensure value for money when purchasing multi-items from a single supplier with no contract.</li> </ul> <p>The collective effect of the control weaknesses above resulted in the original report(s) being a partial assurance.</p> <p>Whilst audit work has not yet been concluded, it is already clear that many, if not all, of the recommendations above have not yet been implemented. Progress has been hampered by the turnover of staff in the risk owner role and also the lack of a permanent procurement post being filled, However, these recommendations have been within the Committee's domain for considerable time now.</p> <p>Dates for implementation are expected to be brought to the next meeting of the Committee and the ACFO Service Support is keen to bring a timely resolution to these outstanding actions.</p>
ICT Controls 2021/22 (*)	Ref 22/07	<p>The two high importance recommendations in respect of Disaster Recovery (DR), originally due for implementation approximately one year ago, were retested, as part of the 2022/23 coverage and were found to remain outstanding.</p> <p>Fire Service Management plan to address the recommendations on a staged basis, through to the end of the calendar year. This will mean these two high recommendations will be within the Committee's monitoring for several more meetings.</p>

Accounts Receivables – BACS Payment Process	Ref 22/11	<p>This recommendation was followed up as part of the 22/23 Counter Fraud Bank Mandate fraud coverage. There has been an on-going delay in producing an independent non-editable daily report of supplier bank account changes. A report has now been produced in a test environment and it will soon be made available to the Service to evaluate prior to live roll out.</p> <p>The report is being developed by Nottinghamshire Fire and Rescue Service rather than Leicestershire (as the financial system software is shared), and so control over the delay is more limited.</p> <p>A further update will be made to the next meeting of this committee.</p> <p>Interim checks and controls have been implemented, which provide a certain level of assurance.</p>
---	-----------	--

### Report Implications/Impact

#### 15. 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’.

16. 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. - Colin Sharpe, Deputy Director of Finance, Leicester City Council, 0116 454 4081

17. 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.

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

None.

19. Environmental

None.

20. 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 2022-23 (Corporate Governance Committee - 09 March 2022)

<https://leics-fire.gov.uk/wp-content/uploads/2022/03/item-8-audit-plan-covering-report-2022-23.pdf>

<https://leics-fire.gov.uk/wp-content/uploads/2022/03/item-8-appendix-1-internal-audit-plan-2022-23.pdf>

Internal Audit Plan 2023-24 (Corporate Governance Committee - 15 March 2023)

<https://leics-fire.gov.uk/wp-content/uploads/2023/03/item-10-internal-audit-plan-202324.pdf>



<https://leics-fire.gov.uk/wp-content/uploads/2023/03/item-10-appendix-internal-audit-plan-for-leicestershire-fire-and-rescue-service-20232024.pdf>

Internal Audit Charter (Corporate Governance Committee - 13 March 2019)  
<https://leics-fire.gov.uk/wp-content/uploads/2019/03/the-internal-audit-charter-for-the-cfa-february-2019-1.pdf>

<https://leics-fire.gov.uk/wp-content/uploads/2019/03/appendix-1-the-internal-audit-charter-for-the-cfa-february-2019-1.pdf>

## **Appendices**

Appendix 1 - Progress against the Internal Audit Plans 2022/23 and 2023/24 as at 28 June 2023

Appendix 2 - Statutory and constitutional requirements and working arrangements

## **Officers to Contact**

Neil Jones, Head of Internal Audit and Assurance Service, Leicestershire County Council

[neil.jones@leics.gov.uk](mailto:neil.jones@leics.gov.uk)

0116 305 7629

Matt Davis, Audit Manager, Leicestershire County Council

[Matt.Davis@leics.gov.uk](mailto:Matt.Davis@leics.gov.uk)

0116 305 7621

Amy Oliver, Treasurer

Leicester City Council

[Amy.oliver@leicester.gov.uk](mailto:Amy.oliver@leicester.gov.uk)

0116 454 5667

This page is intentionally left blank