

Status of Report: Public

Meeting: Corporate Governance Committee

Date: 23 November 2022

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 Plan for 2022-23.

Recommendation

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

- a) four audits are complete (three of which are prior year audits);
- b) three other legacy partial assurance ratings remain outstanding (although substantial progress has been made)

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 2022/23 was approved by the Committee at its meeting on 9 March 2022. Progress against planned work is summarised below and is then reported in more detail in Appendix 1. Updates 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.
- 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 have been completed
 - One current year audit has been completed
 - ten audits are work in progress (see also paragraph 7 immediately below)
7. It is important to note that for varying reasons six of the audits that are either classified as ‘work in progress’ or ‘not started’ remain at the appropriate stage in their timetable for delivery, i.e. work not due to have been completed yet.
8. Three legacy partial assurance reports and associated high importance recommendations remain within the domain of this Committee. These are in respect of Contract Procedure Rules, Key ICT Controls and BACS audits respectively. Detail is included at paragraph 13 below.

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 11 November 2022 has been mapped onto the plan agreed by the Committee at its meeting on 9 March 2022. This forms Appendix 1 and is summarised as:

<u>Status of work</u>	<u>Additional Commentary</u>
Three Prior Year Reports Completed <i>Reference in 2022/23 plan is 23/01</i>	<ul style="list-style-type: none"> • Workshop Services – original reference 22/1 • ICT Controls 2021/22 – 22/7 • Key Financial Systems – Reconciliations and Balances 2021/22 – 22/3
One completed area of work in 2022/23	<ul style="list-style-type: none"> • Counter Fraud: National Fraud Initiative – 23/08
Ten areas of work in progress for 2022/23	<ul style="list-style-type: none"> • Safeguarding – 23/02 • Fire Protection – 23/03 • Key Financial Systems – Reconciliations and Balances 2022/23 (*) – 23/04 • Key Financials Payroll (*) – 23/05

	<ul style="list-style-type: none"> • Key Financials Pensions (*) – 23/06 • ICT Controls 2022/23 (*) – 23/07 • Contract Procedure Rules and associated Policies and Processes – 23/09 • Human Resources 23/10 • Counter Fraud: Bank Mandate Fraud – 23/11 • Contingency - Emerging Issues – 23/12
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* 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 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 this stage no changes to plan/additional time needs have been identified.

High Importance Recommendations

13. 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 is 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, whilst progress had been made, there are still areas to complete in order to lift the partial assurance rating and so this will form part of the 2022/23 Internal Audit coverage.</p> <p>The areas to complete relate to:</p> <ul style="list-style-type: none"> • All contract documentation being held on the Blue Light Database (BLPD). • All contracts located or a copy obtained from the supplier

		<ul style="list-style-type: none"> • Hold records electronically on the database. • Train procuring managers and administrators • Monitor successful delivery of training • 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. <p>Assurance has been obtained that:</p> <p>Contract documents have been loaded onto the database and the existing BLPD is being upgraded to the new In- tend database.</p> <p>Furthermore, assurance has also been obtained that all the other remaining recommendations have been addressed, with the exception of periodic benchmarking/market testing as this remains work in progress.</p> <p>Work to test compliance has commenced and this forms a specific 2022/23 job (ref 23/09).</p>
ICT Controls 2021/22 (*)	Ref 22/07	<p>Two high importance recommendations require addressing, both in respect of disaster recovery.</p> <p>Whilst these high importance recommendations remain outstanding, progress has been made as follows:</p> <p>The DR Test Strategy is currently being developed by the ICT Manager in conjunction with the Infrastructure Manager and the Technical Support Team Lead.</p> <p>ICT Staff and the Business Continuity Team are developing a formal high level Disaster Recovery Test Strategy. The plan is to integrate the various DR test stages and procedures into one</p>

		document to cover testing at all levels. We will test this as part of our ICT testing in the final quarter - job ref 23/07).
Accounts Receivables – BACS Payment Process	Ref 22/11	Whilst a segregation of duties has been established within the BACS process, the management information in respect of bank account changes has been produced but requires testing and sign off prior to live roll out. Evidence of completion of this action will be addressed within our counter fraud - bank mandate fraud work (ref 23/11).

Report Implications/Impact

14. 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’.

15. 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

16. 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.

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

None.

18. Environmental

None.

19. 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 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 Plan 2022/23 as at 31 August 2022

Appendix 2 - Statutory and constitutional requirements and working arrangements

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