

**Status of Report: Public**

**Meeting: Corporate Governance Committee**

**Date: 09 March 2022**

**Subject: Progress against the Internal Audit Plan 2021-22**

**Report by: The Treasurer**

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Leicestershire County Council**

**For: Information Only**

### **Purpose**

1. To provide the Corporate Governance Committee (the Committee) with an update of progress against the Internal Audit Plan for 2021-22

### **Recommendation**

2. The Committee is asked to note the report and in particular:
  - a) that four audits are complete (one of which is prior year)
  - b) that two other legacy partial assurance ratings remain and there is an additional partial assurance rating in the current financial year in respect of a BACS audit.
  - c) the virement position

### **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 2021/22 was approved by the Committee at its meeting on 10 March 2021. Progress against planned work is summarised below and is then reported in more detail in Appendix 1. Updates to the previous position 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. There were 12 potential auditable areas that were approved (plus the follow up of High Importance Recommendations and a prior year report to finalise)

resulting in 14 areas in total. Of these 14 individual pieces of work, progress can be summarised as follows:

- one prior year report has been completed
  - three audits have been completed to final stage
  - two audits have been completed to draft stage
  - seven are work in progress (see also paragraph 7 immediately below)
  - one has not been undertaken (see also paragraph 12 immediately below)
7. It is important to note that for varying reasons five 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. One legacy (2019/20) partial assurance report and associated high importance recommendations remains within the domain of this Committee in respect of Contract Procedure Rules and as reported previously there was a further partial opinion with associated high importance recommendation that was identified from completion of a prior year piece of work (in respect of reconciliations and balances). An additional high importance recommendation in respect of a BACS audit is now also being reported. Further 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 18 February 2022 has been mapped onto the plan agreed by the Committee at its meeting on 10 March 2021. This forms Appendix 1 and is summarised as:

<u>Status of work</u>	<u>Additional Commentary</u>
1 Prior Year Report Completed	<ul style="list-style-type: none"> <li>• Key Financial Systems – Reconciliations and Balances 20/21 (*) – reference 21/3</li> </ul>
3 to final report issued/advisory work complete	<ul style="list-style-type: none"> <li>• National Fraud Initiative – 22/8</li> <li>• Key ICT Controls 20/21 – 22/6</li> <li>• Accounts Receivables – BACS Payment Process – 22/11</li> </ul>

2 to draft report issued	<ul style="list-style-type: none"> <li>• Risk Management Review - 22/2</li> <li>• Contract Procedure Rules and associated Policies and Processes – 22/9</li> </ul>
7 areas of work in progress	<ul style="list-style-type: none"> <li>• Workshop Service – 22/1</li> <li>• Key Financial Systems – Reconciliations and Balances (*) – 22/3</li> <li>• Key Financials Payroll (*) – 22/4</li> <li>• Key Financials Pensions (*) – 22/5</li> <li>• ICT Controls 2021/22 (*) – 22/7</li> <li>• Segregation of duties within the finance function - 22/10</li> <li>• High Recs – (Re Reconciliations and Balances) - 22/12</li> </ul>
1 area not undertaken	<ul style="list-style-type: none"> <li>• Emerging Issues - 22/12</li> </ul>

\* = may be utilised by the external auditor in planning their audit risk-assessment.

#### Virements/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. As indicated to the Committee previously, the time needed to retest high importance recommendations has required additional virement from the allocation for 'emerging issues' and so no additional emerging issues will be reviewed within the 2021/22 coverage.

#### High Importance Recommendations

13. A total of 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. The work relates to coverage in 2019/20, 2020/21 and now an additional partial assurance report in the current financial year. 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>

<p>Contract Procedure Rules (2019/20)</p>	<p>N/A - Original Ref 20-D</p>	<p>Whilst progress has 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"> <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>• Hold records electronically on the database.</li> <li>• Train procuring managers and administrators</li> <li>• Monitor successful delivery of training</li> <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>A further update will therefore be made once the 2022/23 audit has been timetabled and completed.</p>
<p>Key Financials – Reconciliations and Balances (2020/21)</p>	<p>Ref 21/3</p>	<p><u>Reconciliations and Balances 2020/21</u></p> <p>As reported previously, the following areas areas have been reported and signed off by this Committee:</p> <ul style="list-style-type: none"> <li>• Responsibility for prompt independent reconciliation of third party payments</li> <li>• Investigation and prompt correction of unmatched items appearing in Unit 4 accounting codes</li> <li>• Retention of evidence of approval to upload payroll values to Unit 4</li> </ul> <p>The recommendation in respect of the Reconciliation of oncost control</p>

		accounts remains outstanding as this is being retested as part of the 2021/22 Key Reconciliations and Balances Audit currently being undertaken'
Accounts Receivables – BACS Payment Process	Ref 22/11	Update on the two high importance recommendations is as follows:  The secondary check has been introduced to verify new/changes to bank account details.  Evidence that an Adequate Segregation of Duties has been established within the BACS process cannot be signed off yet as implemented as evidence of completion of this action is being awaited.

## 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 2021-22 (Corporate Governance Committee - 10 March 2021)

<https://leics-fire.gov.uk/wp-content/uploads/2021/03/item-9-internal-audit-plan.pdf>

<https://leics-fire.gov.uk/wp-content/uploads/2021/03/item-9-iap-appendix.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 2021/22 as at 18 February 2022

Appendix 2 - Statutory and constitutional requirements and working arrangements

## **Officers to Contact**

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