

**Status of Report: Public**

**Meeting: Corporate Governance Committee**

**Date: 15 September 2021**

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

**Report by: The Treasurer**

**Author: Neil Jones, Head of Internal Audit 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 2021-22.

### **Recommendation**

2. The Committee is asked to note the report and the fact that
  - a. two audits are complete;
  - b. a key financials audit from the prior financial year was awarded a partial assurance; and
  - c. two other legacy partial assurance ratings remain but there are no other partial assurance ratings in the current financial year to date.

### **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.
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.
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:

- two audits have been completed to final stage.
  - one audit has been completed to draft stage.
  - eight audits are work in progress (see also paragraph 7 immediately below).
  - three audits have not yet been started (see also paragraph 7 immediately below).
7. It is important to note that for varying reasons seven of the eleven jobs 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. Two legacy (from 2019/20 audit year) partial assurance reports and associated High Importance recommendations remain within the domain of this Committee and there is a further partial opinion with an associated High Importance recommendation that has been identified from completion of a piece of work from a prior year. There are no new partial assurance/High Importance recommendations in the 2021/22 coverage to date.

## Background

9. This report provides the Committee with a summary of internal audit work undertaken in the period prior to the meeting. Where applicable, an individual ‘opinion’ on each audit assignment is reported i.e., 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 as of 25 August 2021 (and any outcomes) 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>
2 to final report issued/advisory work complete	<ul style="list-style-type: none"> <li>• Key Financial Systems – Reconciliations and Balances 20/21 (*) – reference 21/3</li> <li>• National Fraud Initiative – 22/8</li> </ul>
1 to draft report issued	<ul style="list-style-type: none"> <li>• Key ICT Controls 20/21 – 22/6</li> </ul>
8 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> </ul>

	<ul style="list-style-type: none"> <li>• Key Financials Payroll (*) – 22/4</li> <li>• Key Financials Pensions (*) – 22/5</li> <li>• ICT Controls 2021/22 (*) – 22/7</li> <li>• Contract Procedure Rules and associated Policies and Processes – 22/9</li> <li>• Accounts Receivables – BACS Payment Process – 22/11</li> <li>• High Recs – (Re Reconciliations and Balances) - 22/12</li> </ul>
3 areas not yet started	<ul style="list-style-type: none"> <li>• Risk Management Review - 22/2</li> <li>• Segregation of duties within the finance function - 22/10</li> <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, the Treasurer recognises that it needs to be flexible and be prepared 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. We will also report any additional jobs that have been requested. To date there are no such requests for virement.

#### High Importance Recommendations

13. A total of three partial assurance reports and associated High Importance recommendations currently require progress updates to be reported back the Committee to provide assurance that they have been addressed. All the work relates to the coverage in 2019/20 and 2020/21 and there have been no additional partial assurance/High Importance recommendations in 2021/22 to date. An update in respect of the 2019/20 and 2020/21 audits is as follows:

<u>Job Name/Date</u>	<u>Ref</u>	<u>Area of focus/Date for review/date to report back to committee</u>
Contract Procedure Rules	N/A - Original Ref 20-D	Retesting is currently being undertaken as part of a 21/22 follow up audit (ref 22/9) and will be reported back to the November meeting of the Corporate Governance Committee.

Key Financials – Reconciliations and balances	Ref 20-E	Focus on prompt independent reconciliations was followed up within the 20/21 Key Financial coverage (audit 3) – however this audit also resulted in partial assurance (see immediately below) and so the legacy High Importance recommendations remain outstanding and will be retested and progress reported to the November meeting of the Corporate Governance Committee)
Key Financials – Reconciliations and Balances	Ref 21/3	Further work is currently being undertaken to address the following High Importance recommendations:  Oncost's salary control account reconciliations being undertaken/imbalances investigated  Unreconciled Investment Bank Account transactions promptly identified and corrected

### 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)

There are no staff, service user or stakeholder implications arising from this report.

18. Environmental

There are no environmental implications arising from this report.

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 of 25 August 2021  
 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

Alison Greenhill, Treasurer

[alison.greenhil@leicester.gov.uk](mailto:alison.greenhil@leicester.gov.uk)

0116 454 5552