

Status of Report: Public

Meeting: Corporate Governance Committee

Date: 24 November 2021

Subject: Progress against the Internal Audit Plan 2021-22

Report by: The Treasurer

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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.
2. This report also provides brief information on projects that the Chartered Institute of Public Finance and Accountancy (CIPFA) is undertaking that relate to internal audit and audit committees in the public sector.

Recommendation

3. The Committee is asked to note the report and the fact that:
 - a) Three audits are complete (one of which is prior year)
 - b) Two other legacy partial assurance ratings remain but there are no other partial assurance ratings in the current financial year to date.

Executive Summary

4. 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.
5. 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.
6. 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.

7. 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
 - two audits have been completed to final stage
 - two audits have been completed to draft stage
 - eight are work in progress (see also paragraph 7 immediately below)
 - one has not yet been started (see also paragraph 7 immediately below)
8. 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.
9. Two legacy (2019/20) partial assurance reports and associated high importance recommendations remain within the domain of this Committee and as reported previously there is a further partial opinion with associated high importance recommendation that was identified from completion of a prior year piece of work. Further detail is included at paragraph 14 below. There are no new partial assurance/high importance recommendations in the 2021/22 coverage to date.

Background

10. 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.
11. 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.
12. The current position (and any outcomes) as at 5 November 2021 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"> • Key Financial Systems – Reconciliations and Balances 20/21 (*) – reference 21/3
2 to final report issued/advisory work complete	<ul style="list-style-type: none"> • National Fraud Initiative – 22/8 • Key ICT Controls 20/21 – 22/6
2 to draft report issued	<ul style="list-style-type: none"> • Contract Procedure Rules and associated Policies and Processes – 22/9 • Accounts Receivables – BACS Payment Process – 22/11
8 areas of work in progress	<ul style="list-style-type: none"> • Workshop Service – 22/1 • Risk Management Review - 22/2 • Key Financial Systems – Reconciliations and Balances (*) – 22/3 • Key Financials Payroll (*) – 22/4 • Key Financials Pensions (*) – 22/5 • ICT Controls 2021/22 (*) – 22/7 • Segregation of duties within the finance function - 22/10 • High Recs – (Re Reconciliations and Balances) - 22/12
1 area not yet started	<ul style="list-style-type: none"> • Emerging Issues - 22/12

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

Virements/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. To date there are no such requests for virement, although the time needed to retest high importance recommendations may require additional virement from the allocation for 'emerging issues', although this will be clearer by the next meeting of the Committee in March 2022.

High Importance Recommendations

14. 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. All the work relates to coverage in 2019/20 and 2020/21 and there have been no additional partial assurance/high importance recommendations in 2021/22 to date. Updates in respect of the 2019/20 and 2020/21 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 (2019/20)	N/A - Original Ref 20-D	Draft report issued, however as part of finalisation process, more evidence will be required to be assured that robust revised control design is actually operating as intended. Until this work is complete the recommendation remains in the Committee's domain.
Key Financials – Reconciliations and balances (2019/20)	Ref 20-E	<p>Focus on prompt independent reconciliations – was followed up within the 20/21 Key Financial coverage (21-3) – however this audit also resulted in partial assurance.</p> <p>This has now been re-tested and, subject to approval by this committee, will be considered addressed.</p> <p><i>It should also be noted that by nature of the annual coverage this will again be re-tested in the final quarter reconciliations and balances audit.</i></p>
Key Financials – Reconciliations and Balances (2020/21)	Ref 21/3	<p>Further work currently being undertaken to address the following High Importance recommendations:</p> <p>Oncosts salary control account reconciliations being undertaken/imbalances investigated</p> <p>This remains outstanding and will be retested again as part of the Key Financial Systems –</p>

		<p>Reconciliations and Balances coverage in the final quarter 2021/22.</p> <p>Unreconciled Investment Bank Account transactions promptly identified and corrected</p> <p>This has now been re-tested and, subject to approval by this committee, will be considered addressed.</p> <p><i>Again, it should also be noted that by nature of the annual coverage this will again be re-tested in the final quarter reconciliations and balances audit.</i></p>
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Projects undertaken by the Chartered Institute of Public Finance and Accountancy (CIPFA) relating to internal audit and audit committees

15. The Chartered Institute of Public Finance and Accountancy (CIPFA) is currently undertaking a major research project looking at internal audit in the public services. It is keen to understand how internal audit is contributing most to their organisations and its future potential. This research is part of CIPFA's commitment to supporting the internal audit profession, good governance, and strong public financial management. The findings and conclusions of the research will be published by CIPFA in early 2022. The report will support all those with an interest in effective internal audit in the public services. One aspect of the project is a survey of internal auditors and their clients. CIPFA is keen to receive as wide a view as possible from across the public services and obtain the perspectives of both internal auditors and those who rely on the work of internal audit. The County Council's Head of Internal Audit and Assurance Service (HoIAS) and the Chair of the Corporate Governance Committee both responded to the survey.
16. Over the summer, the former Ministry of Housing, Communities and Local Government (MHCLG) (now known as the Department of Levelling Up, Housing and Communities (DLUHC)) conducted a technical consultation on the National Government's planned responses to the 'Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting', more commonly referred to as the Redmond Review. The consultation was predominantly about changes to local (external) audit arrangements but also included proposals to strengthen audit committee arrangements within councils. This related to Redmond's recommendations on 'Enhancing the functions of local audit and the governance for responding to its findings'. CIPFA has been part of a working group of relevant stakeholder organisations which has considered how to improve the effectiveness of local

audit by ensuring that there are arrangements in place so that local (external) audit reports and recommendations are effectively considered and acted upon by local authorities. In its response CIPFA supported: -

- i. That until guidance to audit committees is strengthened (see below), local authorities should review the existing structure of their audit committees to consider whether their arrangements support effectiveness.
 - ii. Undertaking a review of its 'Audit Committees, Practical Guidance for Local Authorities and Police'. It is intended that the updated publication will be available by April 2022. As the guidance will have no statutory backing, CIPFA considers that it is essential that once the guidance is completed it receives the support of key stakeholders, including DLUHC. This will encourage its widespread adoption.
 - iii. A view that local (external) auditors are well placed to identify any bodies that are struggling to make improvements to their audit committee effectiveness or do not attach sufficient weight to this aspect of their governance. CIPFA is of the view that the local audit framework should ensure that auditors are prepared to make comments and recommendations where improvement is required.
 - iv. A view that mandating the audit committee would have additional benefits beyond tackling problem areas
 - v. A proposal that local (external) auditors should be required to present an annual report to the full Combined Fire Authority (CFA), and that the audit committee should also report its responses to the local (external) auditor's report. CIPFA sees it as important that the local auditors can engage directly with the audit committee for a full discussion of the matters underpinning the report and that the committee should take the lead in making recommendations on how the auditor's findings should be addressed. Presenting the committee's response to the body charged with governance (e.g. full CFA) alongside the auditor's annual report provides assurance on how effectively the audit committee is leading on addressing auditor concerns.
 - vi. Comments in the consultation on the importance of internal audit and the need to ensure that local government bodies maintain an effective internal audit, taking into account the requirements of the Public Sector Internal Audit Standards (2017), the Local Audit Application Note (2019) and that governance arrangements for internal audit are in accordance with the CIPFA Statement on the Role of the Head of Internal Audit.
17. The DLUHC conclusions will be considered and will be reported to a future meeting of the Committee.

Report Implications/Impact

18. 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'.

19. 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

20. 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.

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

None.

22. Environmental

None.

23. 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 05 November August 2021

Appendix 2 - Statutory and constitutional requirements and working arrangements

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