



CORPORATE GOVERNANCE COMMITTEE – 25 NOVEMBER 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

UPDATE ON NATIONAL AUDIT OFFICE (NAO) – GUIDE FOR AUDIT & RISK COMMITTEES ON FINANCIAL REPORTING AND MANAGEMENT DURING COVID-19

Purpose

1. To inform the Corporate Governance Committee (the Committee) how the County Council has responded to the National Audit Office's (NAO) guide for Audit & Risk Committees on financial reporting and management during Covid-19.

Background

2. On 24 June 2020, the NAO published a guide for Audit & Risk Committees on financial reporting and management during Covid-19. The guide was part of a programme of work being undertaken by the NAO to support Parliament in its scrutiny of the UK government's response to Covid-19. Their aim was to report in a risk-based way on programmes and activities being undertaken by government departments and other organisations, and also to support organisations' own internal scrutiny and challenge. In each section of the guide, the NAO set out some questions that could help audit and risk committee members to understand and challenge activities
3. The guide was in four parts: The Annual Report, Financial Reporting, Control Environment, and Regularity of Expenditure. A copy is attached as an Appendix to this report.
4. The Committee considered a report at its meeting on 24 July 2020 which gave brief details on how the County Council was responding at that time to the NAO guidance. This report provides an update on three of the four parts. An update on final part, 'Financial Reporting' will be provided in the report on the External Audit of the 2019-20 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts (agenda item 7).

Annual Report

5. The NAO guidance highlighted how an annual report is a key mechanism for transparent disclosure of an organisation's performance and that disclosures in the report would help to provide information about the impact of Covid-19 on the organisation. Annual report disclosures are expected to consider the period up to

when the document is published. The guidance suggested key questions that Audit Committee members could ask including: -

- a. has COVID-19 caused new risks to achieving the organisation's stated objectives?
 - b. does the performance report reflect the impact of COVID-19 on the organisation's performance?
6. The County Council produces a full Annual Delivery Report and Performance Compendium each year. The draft Annual Delivery Report and Performance Compendium 2020 were considered by the Scrutiny Commission on 4 November and Cabinet on 20 November and are scheduled for consideration by the County Council at its meeting on 2 December. The final Annual Report will be published on the County Council website together with a shorter summary version.
7. The Annual Delivery Report focuses largely on delivery against the County Council's five priorities as set out in the Council's Strategic Plan 2018-22 and other main service strategies, particularly during the first half of the year. However, the 2019-20 report also sets out some of the impact, significant new work and reorientation required to support the Council's major responses to the coronavirus pandemic, which impacted on the priorities during the second half of the year and remains ongoing. Responses included: -
- a. Local Resilience Forum (LRF), LLR Prepared – co-ordination of multi-agency response; support of distribution of PPE to key workers; ensuring effective mortality support;
 - b. Trading Standards - enhanced regulatory role e.g. significant PPE imports, advice and safety checks/compliance; advice to businesses entering the market; ensuring business compliance with restrictions; issue and monitor restriction/closure notices;
 - c. Public Health - providing local health advice; piloting local test and trace arrangements; working to keep residents safe during lockdown; incident management; implementation of rapid local actions; digital health services;
 - d. Adult Social Care – support to care homes; staff redeployed into new roles to support efforts including essential calls to vulnerable people; support those with mental health needs;
 - e. Contracts and commissioning - supported independent providers to access PPE and those with learning disability to understand new guidelines; sought PPE donations for key workers;
 - f. Children and Families - schools supported with advice, re-opening for children of essential workers; schools and services offered care, food and support to families in need; additional educational psychology service help;
 - g. Vulnerable children - normal services with visits and online contacts; campaign sought to raise awareness of safeguarding issues during lockdown; face to face, video, online group and skype sessions; food parcels offered to support families struggling to access essentials.
 - h. Communities Service – managed the Communities Fund to support voluntary and community sector groups to help vulnerable people and mobilise and support volunteers; Created Shielding Vulnerable People team provided a dedicated response to 25,000 people identified including initial calls and supporting with essential supplies, and basic care.
 - i. Business Recovery Fund established, and new economic recovery strategy and plans developed. Market town preparedness supported and pop-up

walking and cycling routes created through the Active Travel Fund. Extra school bus support provided.

- j. Corporate Response - business continuity plans enacted quickly and lower priority work paused; resilience planning - daily meetings focusing on supplies of PPE; 90% of staff supported to work from home; a range of staff redeployed into new roles; enhanced wellbeing support, sickness advice and organisational communications; interim recovery plans developed to recover services; enhanced budget management and reprioritisation of revenue and capital spend; ensured buildings were Covid-19 secure; assessed and managed the impact on commercial services income.
8. The Annual Performance Compendium reflects that the Annual Governance Statement (AGS) for 2019-20 also reviewed the Council's response to, and planned recovery from Covid-19 and that a significant governance issue was identified in relation to the impact of the virus and of recovery of services on the Council's Medium-Term Financial Strategy. The AGS reported that the crisis will have a profound impact on the Council's financial position and the way in which services are delivered and the pandemic has seriously prejudiced the achievement of some of the principal objectives of the Council's Strategic Plan. Delivery of the Strategic Plan will continue to be monitored and reviewed in the light of the challenging financial and service environment.
9. The Annual Performance Compendium also reflects that the Council has a good risk management process to help it to identify possible risks, score these in terms of likelihood and impact and take mitigating actions. It refers to the specific Covid-19 risk added to the Corporate Risk Register following the meeting of the Corporate Governance Committee on 12 June 2020, *'If the Council does not plan, prepare and respond adequately to future developments in relation to both the COVID 19 pandemic and recovery to a "new normal" level of services it could suffer long lasting economic, environmental, societal and technological challenges and miss opportunities'*. The Compendium also reflects that the Council continues to maintain a strong financial control environment and deploys its internal audit service on a range of assurance areas.
10. Part 3 of the Compendium uses performance indicators to compare the Council's performance over time against targets and with other local authorities. Comparison or benchmarking helps to place Leicestershire's performance in context and also to prompt questions such as 'why are other councils performing differently to us?' or why are other councils providing cheaper or more expensive services? Commentary is provided for each Performance Indicator (over 20) that was affected in some way by Covid-19 and the authors looked to include later (than 2019-20) in-year data where it was available that showed some of the potential impact areas – such as recent increases in unemployment and pressures on families and mental health for example. With increased risks to services overall.
11. In addition to the County Council's Annual Delivery Report and Performance Compendium, Directors of Public Health have a statutory duty to publish an Annual Public Health Report that describes the state of health within their communities. New indicators on Covid-19 will be included in the report and more details on the public health situation included. The statutory report is normally reported to the November meeting of the Health Overview and Scrutiny Committee, however, because of the demands on the Director of Public Health, the timeline for publication has been extended to the beginning of 2021.

12. It is considered that the Council's wide scope of annual reporting will conform to the NAO guidance.

Financial Reporting

13. This section covers the Statement of Accounts, and in particular the following areas:
- valuations, including property, pension scheme and inventory valuations;
 - completeness of liabilities;
 - going concern;
 - events after the reporting period.
14. An update on 'Financial Reporting' will be provided in the report on the External Audit of the 2019-20 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts.

Control Environment

15. This section recognises that internal controls may have stopped, required modification or been overridden by new controls introduced to adapt to the impact of the Covid-19 outbreak. Changes may have been made at pace to respond to a dynamic environment, which may impact effectiveness.
16. The guide points out that changes in controls may have occurred due to:
- a. Remote working may have impacted the ability for controls to operate as designed.
 - b. Operational imperative to deliver more quickly or due to changes in staff availability.
 - c. New activities not previously undertaken by the Council.
 - d. Senior management oversight may have been reduced due to urgent operational priorities.
 - e. IT security systems may not have been designed for large-scale remote working.
17. The guide suggested key questions that Audit Committee members could ask. Here they are listed with a brief summary of responses: -
- a. Were any changes needed to the design and implementation of internal controls to respond to COVID-19?
 - Yes – The Internal Audit Service (IAS) initiated providing advice on the design and implementation of internal controls from mid-March. In mid-April, the Head of Internal Audit Service (HoIAS) reminded the Council's senior managers of their responsibility to ensure that the Council's underlying control environment did not rapidly diminish to the point it became out of control and a danger to future organisational stability. The most recent update/reminder was in early November, informing managers that Departmental Finance Business Partner Teams and/or IAS must be consulted at an early stage on any major system development or process amendments, whether this is as a result of Covid-19 or not. A record is maintained by IAS of the advice and assurance work it has conducted throughout the pandemic period.

- b. Where changes were made to controls, did the organisation understand where there was increased risk because of this?
- Yes - Some changes had to be made urgently and immediately. Whilst there wasn't a formal process to capture risk analysis and evaluation, the HoIAS' internal control reminder advised that a good audit trail and robust data quality was important to support the very significant decisions that were being made at pace.
- c. Has remote working affected the operational effectiveness of internal controls?
- Not known of – IAS continues to monitor the Council's IT changes and when seeking assurance on Remote Access Security, it was advised that the existing methods of working from home have been scaled up to cope with the additional demand rather than new methods introduced. In other words IT services have deployed tried and test methods rather than rapidly deploying new/untested methods and technology.
 - The softer controls of supervision and performance management are more difficult to track, but issues that have arisen in other organisations do not appear to have been prevalent at the Council
- d. How have IT services performed during the outbreak?
- Very well – whilst there were inevitable initial problems due to extremely high demand in a very short period of time, major IT support was deployed to implement mobile and home working in response to the Covid-19 pandemic, including provision of laptops and other technology to a wider range of staff, as well as enhancements to the speed of the council network and servers.
 - At its meeting on 24 July 2020, the Corporate Governance Committee received a presentation on Cyber Security Risk Management which included details of Covid-19 associated cyber risks and how the Council had responded to mitigate them. These included using proven technology to support increase in homeworking, bolstered incident response plans, active threat monitoring, monitoring for use of non-approved technology, increased staff communication to counter the threats and improved resilience of the general network and infrastructure.
 - Beyond cyber security risk, IAS is currently concluding its work to evaluate other IT responsibilities during the outbreak i.e. Remote Access Security; Access management to systems for re-deployed staff; Network Performance - more demand for WFH; Capacity management; Patching; Collaboration Tools; Asset Management (procurement and management of new kit) and Software licensing. Whilst a few recommendations will be forthcoming, good levels of assurance have been obtained that these areas are being well managed.
- e. Where service organisations are used, have there been any changes to the design and implementation of their controls?
- Yes – but similar to the County Council, it is primarily the location of the control that has changed, not the mechanism.
 - The Council receives its payroll and financial payments and receivables services from EMSS. Its Annual Report highlights that the

business absorbed the challenges thrown up by the Covid 19 crisis that totally changed the way its services are delivered e.g. service desks were moved from an internal phone system to Anywhere365 to allow staff to work remotely; there were additional requirements that the situation brought including the emergency supplier set ups for PPE equipment, emergency payments required for business grants and charities as well as multiple refunds for annual services. Additionally, a debt management control (threat of legal action) was temporarily suspended.

- EMSS operates to the Council's IT arrangements so would be subject to the same assurances reported above.

18. The NAO questions do provide the HoIAS with some additional thoughts (particularly around sustainability of new controls) with which to strengthen the assurance given. This will be incorporated into future audit planning and any significant outcomes would be reported back to Committee.

Regularity of Expenditure

19. This final part of the guide recognises that organisations such as the Council have been required to increase spending and, in some circumstances, incur expenditure on activities outside those permitted by original authorising legislation or other applicable delegated authority.
20. The guide suggested a number of questions could be asked by Audit Committees:
- a. Have there been any significant changes to the organisation's activities during the outbreak?
 - Yes – these are outlined in paragraph 7 above. Whilst some activities were extensions of normal demands, there were new significant changes to deal with the pandemic
 - b. Has the accounting officer assessed the reasonableness of increased expenditure or new activities in the context of *Managing Public Money*?
 - Yes - There is an expectation that even in circumstances of significant disruption and upheaval, the Council's Chief Financial Officer (and the Monitoring Officer) should still ensure that all expenditure adheres to the principles of regularity, propriety, value for money and feasibility. The Director of Corporate Resources promptly issued guidance to managing some of the financial scenarios that LCC was likely to encounter for the duration of the Covid situation which included corporate approval limits for decisions on new expenditure areas and the approach to take for reduced services and any supplier requests for additional payments.
 - The IAS has undertaken audits of systems developed for payments to adult social care providers, grants from the Communities Fund (and currently Business Recovery Grants), home equipment and travel allowances and a wide range of grant claims. Audits of payments to taxi companies and winter grants are scheduled.
 - c. Is there any new expenditure that could be deemed novel and contentious?
 - Whilst some of the payments made would not be considered in the normal course of business, such as advance payments or payments for a reduced service, these were made in the context of pandemic

driven financial pressures, within government guidance and with the long term interests of Leicestershire in mind. As such any novel payments are justifiable and within the normal range of responses seen from other local authorities

- d. Has management breached any control totals?
 - The majority of departments are overspending in the current financial year. All instances are unavoidable rather than discretionary due to Covid-19 related demand, reduced income due to Covid-19 and unavoidable service demand. Appropriate measure have been taken to ensure that there is awareness of the situation and mitigating actions to ensure that the current year budget can be balanced.
 - e. Have the provisions in Procurement Policy Note 02/2020 been used by management?
 - Yes - The Director of Corporate Resources developed a system for emergency procurements in line with Cabinet Office guidance which requires full justification and authorisation by the appropriate Commercial Specialist, Chief Officer and if required the Director of Law & Governance.
 - The IAS is scheduled to undertake some assurance work on emergency procurements.
21. The guide also raises questions relating to fraud and error. Key questions that could be asked by the Audit Committee are: -
- a. What exposure to fraud and error does the organisation have in its responses to COVID-19?
 - b. How is the organisation managing fraud and error risks?
 - c. What processes are in place to measure fraud and error and evaluate the effectiveness of activities to prevent or detect this?
 - A brief summary of IAS work on Covid-19 related fraud is contained in Appendix 2

Conclusion

22. This report has provided reasonable detail on how the County Council has responded to the National Audit Office's (NAO) guide for Audit & Risk Committees on financial reporting and management during Covid-19. The situation will continue to be monitored and the Committee will receive either a further update report or there will be referencing to further work undertaken in a future Internal Audit Service Progress report.

Recommendation

23. The Committee is asked to note the attached guide and to provide any comments.

Equality and Human Rights Implications

24. None.

Circulation Under the Local Issues Alert Procedure

25. None.

Background Papers

26. Report to the Scrutiny Commission on 4 November 2020: Annual Delivery Report and Performance Compendium for 2020

<http://politics.leics.gov.uk/documents/s157566/Annual%20Delivery%20and%20Performance%20Compendium%2019-20.pdf>

27. Report to the Cabinet 20 November 2020: Draft Annual Delivery Report and Performance Compendium for 2020

<http://politics.leics.gov.uk/documents/s157816/Final%20Annual%20Performance%20Report%20Accessible.pdf>

<http://politics.leics.gov.uk/documents/s157819/Appendix%20A%20-%20Annual%20Delivery%20Report%202020%20ScrutinyCabinet.pdf>

<http://politics.leics.gov.uk/documents/s157819/Appendix%20A%20-%20Annual%20Delivery%20Report%202020%20ScrutinyCabinet.pdf>

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Appendices

Appendix 1 National Audit Office's (NAO) guide for Audit & Risk Committees on financial reporting and management during Covid-19

Appendix 2 Counter Fraud Work During Covid-19