

**Leicester City Council
Head of Internal Audit Service
Annual Report 2023-24**

**Neil Jones CPFA,
Head of Internal Audit & Assurance Service, Leicestershire
County Council**

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Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised from April 2017. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. The Mission of Internal Audit
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing
 - iv. Code of Ethics
 - v. International Standards for the Professional Practice of Internal Auditing
2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities must make provision for internal audit in accordance with the PSIAS.
3. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (for Leicester City Council this is the Governance & Audit Committee) timed to support the annual governance statement.
5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment (i.e. its framework of governance, risk management and internal control) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function against its performance measures and targets
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment.
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

The Annual Internal Audit Opinion on the Adequacy and Effectiveness of Leicester City Council's Control Environment

6. **Annex 1** provides detail on how the annual internal audit opinion was formed, explains the types of audits undertaken, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinions reached.
7. The opinion is based on an objective assessment of the results of individual audits undertaken, actions by management thereafter and the professional judgement of the HoIAS in evaluating other related activities including the Council's plans and responses received. For 2023-24, the HoIAS reviewed actions taken to promote good governance, mitigate risk and retain control. The following opinion has been reached:

HoIAS opinion: A stable staff group throughout the year allowed for a good progression of planned audits. Forty-five assurance audits were undertaken, the majority of which returned substantial assurance rating. Nine audits either contained high importance (HI) recommendations or were otherwise given a partial assurance rating and were reported in summary to Committee during the year. Seven consulting engagements were undertaken. Seventeen grants were certified. Management accepted and responded positively to recommendations including follow ups.

The HoIAS took independent assurance from External Audit reports and the Leicester Safeguarding Children Partnership Board Annual Report and reviewed other Committee reports.

The major cyber incident in early March created short delays to progressing a few audits. However, an important scheduled audit of key ICT controls (including a follow up on the cyber security audit undertaken in 2022-23), was not able to be undertaken due to the cyber incident. Therefore, Internal Audit assurance could not be given that there was not material risk exposure. Independent assurance will need to be gained once the incident is concluded.

Notwithstanding being unable to provide assurance on key ICT controls, reasonable assurance is given that the Council's control environment has remained overall adequate and effective.

8. At the 18 June 2024, the outcomes of 2 audits hadn't been concluded with management. Whilst some recommendations have been (or will be) made, their outcomes will not affect the overall opinion given.

A summary of the audit work from which the opinion is derived.

9. **Annex 2** lists the audits and other work undertaken by LCCIAS during the year and where appropriate contains the individual audit opinion.
10. 5 prior year audits were concluded. Up until the time of the cyber incident in early March 2024, good progress was made against the 2023-24 plan. Overall, for work completed at 18 June, 34 audits returned a 'substantial' assurance' rating, meaning the controls in place to reduce exposure to risks

to achieving the system's objectives were well designed and were being operated effectively.

11. 8 planned audits from 2023-24 (and 1 prior year audit) resulted in partial assurance ratings. This was because either specific high importance (HI) recommendations (or a combination of several important recommendations) were identified denoting there was either an absence of, or a weakness in control and achievement of the service's objectives was open to material risk exposure. HI recommendations/partial assurance ratings are reported in summary to the Governance & Audit Committee (the Committee) and they stay in the Committee's domain until the HoIAS has confirmed (by obtaining evidence or even specific re-testing) that action has been implemented. During 2023-24 of the 6 HI recommendations audits closed off after follow-up, 3 related to prior year audits, a further 2 prior year HI recommendations audits remain in progress. The HoIAS remains satisfied that senior management and Members pay attention to the implementation of HI recommendations/partial assurance ratings. However, there needs to be active monitoring and reporting slippage in implementation of recommendations which might indicate increasing pressures and strains on the control environment.
12. Two of the four 'major financial systems' audits returned positive assurance ratings as did several other financial systems audits.
13. It was planned to conduct the regular audit of key ICT controls and include a follow up to the cyber security audit (2022-23). The audit was scheduled to be undertaken in mid-March after the External Auditor had concluded its annual IT systems work to give assurance on the integrity of the Council's financial statements. However, the major cyber incident occurred in early March, so Internal Audit was not able to provide assurance that risks were being mitigated. Independent assurance will be required once the incident is concluded.
14. 9 maintained schools were audited, 4 returned negative assurance ratings. An audit of school absence monitoring was also undertaken.
15. Advice (Consulting audits) was given in seven areas including on the BACS/Direct Debits repayments of debt by instalment plans issue which occurred on 31 May. This work later formed two further assurance audits the third of which remains in progress.
16. There were fewer grant certifications and consequently that used up less resource than the previous year (87 versus 108 days). Nevertheless, the use of resource in this area remains a concern across all local authorities.
17. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies. For 2023-24 the HoIAS took assurance externally from three reports by the External Auditor, Related Parties – consideration of enquiry: The ISA 260 Report (the Audit Findings Report) and The Auditor's Annual Report 2022/23 (The Value for Money report). The HoIAS also took independent assurance from the Safeguarding Children Partnership Board Annual Report and internal assurances from City Council committee reports especially the Scrutiny Annual Report.

18. The HoIAS was interviewed by (and provided evidence to) the External Auditor during their value for money work relating to the Council's governance arrangements. The Internal Audit Service was reported positively in the Auditor's Annual Report.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

19. The tables below show performance both in terms of number of audits and days allocated.

Table 1: Overall performance against 2023-24 internal audit plan

Position as at 18 June 2024	Total	Complete	Draft issued	In progress	Postpone or Cancel
Assurance audits	60	43	-	2	15
Consulting audits	7	7	-	-	-
Grants/other	21	17	-	-	4
Follow ups	12	6	-	6	-
Total	100	73	-	8	19
Prior year 2022-23	128	92	3	9	24

20. The 2023-24 plan contained several potential areas for audit that for a variety of reasons didn't come to fruition and were deferred. Other audits were added to the plan and replaced them. Some deferred audits have begun to be worked on in 2024-25.
21. For the period 1st April 2023 to 31st March 2024, 869 days were recorded (2022-23 same period was 875) which was sufficient coverage to be able to form an opinion.

Results were: -

Function	2022-23	2023-24	+/-
Audits (assurance, consulting, investigations)	782	781	-1
Client management – includes committees	93	88	-5
Total	875	869	-6

22. Overt 60% of the time was provided by senior/experienced staff: -

Position	Days	%	Days	%
HolIAS & Audit Managers	172	20	188	21
Senior Auditors & ICT Auditor	340	39	352	41
Other	363	41	329	38
Total	875	100	869	100

23. Synergy was achieved i.e. where the same audit has been undertaken at the City and County Councils (especially grants).
24. LCCIAS regularly liaises with the Council's risk, counter fraud, procurement and information governance leads, shares consultation responses and

- governance and risk research and publications and feeds back information gathered from other local authorities to enable comparisons.
25. Whilst 13 customer satisfaction questionnaires were issued within year, only 5 were returned. 4 were scored highly satisfied. For the 5th audit, despite the assurance rating being 'substantial' and only a few recommendations which were all agreed by the client manager, the questionnaire was scored 'unsatisfactory' on the basis value added was minimal.

A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

26. Leicestershire County Council Internal Audit Service commissioned its 5 yearly External Quality Assessment (EQA) to be undertaken in the spring of 2024. The undertaking of an EQA is a requirement of the Public Sector Internal Audit Standards (PSIAS), in conjunction with CIPFA's Local Government Advisory Notice (LGAN - 2019), which aim to promote continued improvement in the professionalism, quality and effectiveness of the internal audit function. As part of the internal audit quality management programme, each internal audit function should be subjected to an external assessment of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation.
27. The assessment (undertaken by a very experienced internal audit and risk professional with a career spanning 40 years) was based upon a review (validation) of an evidenced internal self-assessment exercise using the standard template of LGAN. The EQA provided for the review to be undertaken remotely, which proved to be an efficient and effective means of conducting such reviews and enabled electronic files to be provided to the reviewer to evaluate consistency and diligence in processes. In addition to interviews with both the HoIAS and the Audit Manager responsible for EQA submission, eleven other key stakeholders from a range of clients were also requested to provide feedback in relation to the service.
28. The assessor's final report states: -

The Leicestershire County Council internal audit service is delivering to a standard that generally conforms (*) with the Public Sector Internal Audit Standards

(*) 'Generally Conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards.

The assessor considered LCCIAS to compare very favourably in benchmarking against other Local Authorities. Six areas of good practice were reported and (as was expected) four areas for further improvement. An action plan is being developed.

29. The assessor also reviewed the service's Quality Assurance and Improvement Programme (QAIP). The report stated that, 'LCIAS has developed a QAIP process which itemises development and supervisory processes that contribute towards maintaining and evidencing appropriate

review of the delivery of a quality service...and including a series of key performance indicators (KPI's)'. Two areas for further improvement were suggested and they have been included in the action plan.

Any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement (AGS)

30. For the year 2023-24, the HoIAS considers that the major cyber security incident that occurred in early March should be reported in the AGS along with any action taken and planned.

Neil Jones CPFA
Head of Internal Audit & Assurance Service
LCCIAS

18 June 2024.