

Leicester City Council Governance & Audit Committee
19th July 2023

Report of Leicestershire County Council's
Head of Internal Audit & Assurance Service

Progress against Internal Audit Plans 2022-23 and 2023-24 and the
Internal Audit Annual Report 2022-23

Purpose of Report

1. The purpose of this report is to provide:
 - a. **Part 1** - Summary of progress against the 2022-23 and prior year Internal Audit Plans including:
 - i. summary information on progress with implementing high importance recommendations.
 - ii. summary of progress against the Internal Audit Plans
 - iii. commentary on the progress and resources used
 - iv. progress with developing the Internal Audit Plan for 2023-24
 - b. **Part 2** - An annual report on internal audit work conducted during 2022-23 containing information on the internal audit function's conformance to professional standards, which provides an insight into its effectiveness

Recommendation

2. That the contents of the report be noted.

Background

3. The Council's internal audit function was delegated to Leicestershire County Council in 2017.
4. Within its Terms of Reference the Governance & Audit Committee (the Committee) has a duty to receive regular reports on progress against the internal audit plan, containing activity undertaken, summaries of key findings, issues of concern and action in hand. It also has a duty to review and approve the Head of Internal Audit Service's annual report containing an opinion on the overall adequacy and effectiveness of the Council's control environment, and conformance to the Public Sector Internal Audit Standards (the PSIAS)
5. Most planned audits undertaken are 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. For these audits an assurance level is given as to whether material risks are being managed. There are four levels: full; substantial; partial; and little.
6. 'Partial' ratings are normally given when the auditor has reported to management at least one high importance (HI) recommendation. A HI recommendation denotes that there is either an absence of control or evidence that a designated control is not being operated and as such the system is open to material risk exposure. It is particularly important therefore that management quickly addresses those recommendations denoted as HI and implements an agreed action plan without delay. HI's are reported to this Committee and a follow up audit occurs to confirm action has been implemented. Occasionally, the auditor might report several recommendations that individually are not graded high importance but collectively would require a targeted follow up to ensure improvements have been made.
7. Other planned audits are 'consulting' type, which are primarily advisory and guidance to management. These add value, for example, by commenting on the effectiveness of controls designed before implementing a new system.
8. Grants and other returns are audited, but because these are specific or focused reviews of certain aspects of a process in these cases it is not appropriate to give an assurance level. When they are completed, 'certified' is recorded.

9. Follow up audits relating to testing whether recommendations have been implemented from previous years' audits are undertaken. With this type, assurance levels aren't given because not all of the system is being tested. However, the Head of Internal Audit Service (HoIAS) forms a view on whether the situation has improved since the original audit and that is listed.

Progress with implementing high importance recommendations

10. The Committee is tasked with monitoring the implementation of high importance (HI) recommendations which primarily lead to low assurance levels. **Appendix 1** provides a short summary of the issues and the associated recommendations. The relevant manager's agreement (or otherwise) to implementing the recommendation(s) and the implementation timescale is also shown. Recommendations that have not been reported to the Committee before or where some update has occurred to a previously reported recommendation are shown in **bold font**. Entries remain on the list until the HoIAS has confirmed (by gaining sufficient evidence or even specific re-testing by an auditor) that action has been implemented.
11. At the end of the year, as part of the process of determining his annual opinion, the HoIAS takes account of how management has responded to implementing high importance recommendations. Responses are generally positive however there is recognition that some recommendations do require more time to fully implement.

To summarise movements within Appendix 1 as at 5th July 2023.

- a. New
 - i. CCTV
- b. Ongoing/extended (date initially reported & number of extensions granted)
 - i. GDPR #2 (June 2020 - 8)
 - ii. Key ICT Controls 2020-21 (September 2022 - 2)
 - iii. Direct Payments (November 2022 - 2)
 - iv. Bed & Breakfast Emergency Placement (March 2023- 1)
 - v. Construction Projects(CDM Compliance)(March 2023-1)
- c. Closed (date initially reported to Committee)
 - i. Emergency Repairs (March 2023)
 - ii. Inglehurst Infant School (March 2023)
 - iii. St John the Baptist Primary School (March 2023)

Part 1

Summary of progress at 30th June 2023

12. **Appendix 2** reports on the position at 30th June 2023. The most recent status is shown in **bold font**. The summary position (with comparison to the previous position at 31st January 2023) is:

	2022/23 (& prior year) @30/01/23	2022/23 (& prior year) @30/06/23
Outcomes		
High(er) Assurance levels	18	41
Low(er) Assurance levels	9	10
Advisory	2	6
Grants/other certifications	21	24
HI follow ups – completed	8	11
Audits finalised	58	92
Audits in progress	37	6
HI follow ups – in progress	8	6
Not yet started	3	0
Postponed/Replaced /Cancelled	17	24

Summary of resources used in 2022-23 (as at 31st March 2023)

13. To close off prior year audits, progress 2022-23 audits (reported in Appendix 2), and provide additional work relating to requirements such as planning, reporting to Committees etc, at 31st March 2023; Leicester City Council had received 875 days of internal audit input, and has achieved the 800 target days agreed in the delegation agreement (see below table).

	@31/03/2023	@ 31/03/2023
By type	Days	%
Relating to prior years audits (*)	101	12%
Relating to audits started 2022-23	681	78%
Sub-total audits	782	90%
Client management	93	10%
Total	875	100%
By position		
HolIAS	34	4%
Audit Manager	138	16%
Audit Senior (incl. ICT)	340	39%
Auditor	363	41%
Total	875	100%

(*) These days were utilised either concluding previous years audits or following up on the progress made with implementing audit recommendations where low assurance levels had been reported.

Commentary on progress and resources used

14. Overall, there has been very good progress made in closing off 2022-23 and prior year audits, only 6 audits remain outstanding of these three are at draft report stage. There have been instances where there have been difficulties in obtaining information on a timely basis from clients; the Deputy Director of Finance has been kept informed of this and his assistance has been very helpful in progressing these audits. Three audits with high importance recommendations have been closed off since the last report; others continue to be followed up until Internal Audit are satisfied that the recommendation has been fully implemented. Having a much more stable team has ensured the delivery of the audit plan, including the target 800 days.

Progress with developing the Internal Audit Plan for 2023-24

15. In early Spring, the HoIAS and Audit Manager met with all Directors and their management teams to discuss their services' current and emerging risks and where they might benefit from receiving independent and objective assurance that those risks are being adequately managed. There was good engagement and a wide scope of audits were identified. However, the draft plan has not yet been finalised and will be reported to September's Committee. Nevertheless some planned audits have been progressed and, in some cases, completed; one significant audit relating to BACS/Direct Debits, which management urgently requested, is currently underway. These are highlighted in Appendix 2.

Part 2

Internal Audit Annual Report 2022-23

16. The HoIAS' annual report must include:

- a) An annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment
- b) A summary of the audit work from which the opinion is derived
- c) A comparison of the work actually undertaken with the work that was planned to include a summary of the performance of the internal audit function
- d) A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)
- e) any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

17. The annual report for 2022-23 is provided at **Appendix 3**. The report includes the HoIAS' opinion.

A return to more stable working environments following covid-19, along with a fully staffed Internal Audit Service throughout the year, resulted in increases to both the number of audits undertaken and days provided. There was a noticeable shift back to assurance based audits.

There was a reduction in the proportion of audits returning partial assurance ratings and management accepted and has responded to internal audit recommendations. Nothing else of significance has been brought to his attention so the HoIAS considers that during 2022-23, reasonable assurance can be given that the Council's control environment remained overall adequate and effective.

The HoIAS' opinion is also contained in the Council's draft AGS.

18. **Annex 1** provides detail on how the annual internal audit opinion was formed, defines the types of audits, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinion reached.

19. **Annex 2** lists the audits undertaken during the year. For assurance audits the individual audit opinion is given. This annex also lists information that the HoIAS has shared with key officers at the City Council.

20. **Annex 3** is the position after the June 2023 light touch self-assessment conducted by the HoIAS of the Service's general conformance to the PSIAS. Supporting notes are reported.

21. **Annex 4** is the position after the HoIAS light touch review of the Quality Assurance and Improvement Programme (QAIP). Some action dates needed extending.

22. Headlines from the report are: -

- a. The HoIAS overall opinion on the adequacy and effectiveness of the control environment remained positive.
- b. The vast majority of assurance audits conducted (almost 80%) returned substantial assurance ratings. Those where less assurance was given will continue to be subject to further internal audit scrutiny.
- c. There was good progress in closing off legacy high importance recommendations.
- d. Overall, more audits were undertaken and completed.
- e. Audits of grants remains a drain on resource although less than in recent years.
- f. There's a very small carry over of work.

- g. Year on year comparison shows that days provided considerably exceeded those from the previous year(s) and the increase was utilised on audits not client management.
- h. Customer satisfaction returns increased and remained wholly positive
- i. Development and training continued. The Service generally conforms to PSIAS. The QAIP has been updated with some action due dates moved forward.

Financial Implications:

23. 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.

Legal Implications:

24. None.

Equal Opportunities Implications

25. There are no discernible equal opportunities implications resulting from the audits listed.

Climate Emergency Implications:

26. None

Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)?

27. No.

Is this a “key decision”? If so, why?

28. No.

Background Papers

The Constitution of Leicester City Council
Accounts and Audit Regulations (Amendment) 2015
The Public Sector Internal Audit Standards (revised from April 2017)
The Internal Audit Plans 2021-22 and 2022-23
Report to Audit & Risk Committee 13 June 2018 - Internal Audit Service – Peer Review Outcome

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Appendices

Appendix 1	High Importance Recommendations as at 5 th July .
Appendix 2	Summary of Internal Audit Service work undertaken between 1 st April 2022 – 30 th June 2023.
Appendix 3	The Head of Internal Audit Service Annual Report 2022-23
Annex 1	The Head of Internal Audit Service Annual Opinion on the overall adequacy and effectiveness of the control environment 2022-23
Annex 2	Work supporting the HoIAS Annual Opinion 2022-23
Annex 3	Summary self-assessment of conformance with PSIAS – June 2023
Annex 4	Self-assessment against the Quality Assurance and Improvement Programme – June 2023