

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of Leicester City Council's control environment
2023-24**

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Background

The Head of Internal Audit and Assurance Service, Leicestershire County Council undertakes the role and responsibilities of Leicester City Council's (the Council's) Head of Internal Audit Service (HoIAS). The HoIAS manages Leicestershire County Council's Internal Audit Service (LCCIAS). In May 2024, LCCIAS was independently externally assessed as generally conforming (the top rating) to the Public Sector Internal Audit Standards (the PSIAS). The PSIAS require the HoIAS to give an annual opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control). The PSIAS definition of the control environment is found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is **macro**-assurance over a defined period (financial year 2023-24) and is based upon a combination of:

- An objective assessment based on the results of individual audits undertaken and actions taken by management thereafter. Individual internal audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed are formed by applying systematic grading to remove any elements of subjectivity. **Annex 2** lists the audits and other work undertaken during the year and, where appropriate, the individual audit opinion. Individual audit engagements provide targeted **micro**-assurance.
- The HoIAS' role in preparing for, attending, and reporting to the Governance & Audit Committee (the Committee) and his observations of other reports and engagement during specific training provided to the Committee.
- The HoIAS' reflection on other sources of independent assurance received.
- The professional judgement of the HoIAS based on his knowledge, experience and evaluation of other related activities. This provides a holistic, strategic insight into the City Council's control environment.

The results of the above, when combined, form the basis for the HoIAS opinion on the overall adequacy of the Council's control environment (see definitions). However, the caveat at the end of this document explains what internal control cannot do, i.e. no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given its limited resource. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment based on the work undertaken and known facts.

Governance related internal audit work

Governance arrangements were reviewed in several audits some examples being Levelling Up Projects, Parks and Open Spaces, Corporate Landlord. Overall, recommendations were to improve governance i.e. not to have to establish it.

Throughout the year the HoIAS (and Audit Manager) attended the Governance & Audit Committee (the Committee) to present plans and reports on the internal audit activity, which enabled him to gauge Member level governance at first hand and observe the training delivered

by officers to support their knowledge and role. The HoIAS and Audit Manager continued to meet with the Head of Finance to progress internal audit plans.

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.

To gauge effective scrutiny, the HoIAS reviewed several Overview Select Committee webinars and associated certain reports including the Scrutiny Annual Report.

The HoIAS received assurance externally from three External Audit reports (including the 2022-23 value for money report) and the Safeguarding Children Partnership Board Annual Report.

Risk management related internal audit work

A range of audits planned and conducted were 'risk based' i.e. ensuring that the Council's management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure. Specific audits of the Council's conformance to CIPFA's Fraud Code, Construction Design and Management Regulations and SEND transport arrangements were undertaken. The HoIAS received further assurance internally from reviewing the arrangements to revise and improve the identification, reviewing reporting of strategic risks.

Financial (and ICT) Controls related internal audit work

A considerable number of audits were undertaken on areas of key financial systems for example payroll, treasury management, creditors, and fleet invoices. An audit relating to BACS/Direct Debits repayments of debt by instalment plans continues and is in its third phase. Less audit time was focussed on certifying grant claims. All grants (and other returns) audited met their conditions to be certified.

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.

Definitions

The revised 2017 Public Sector Internal Audit Standards (the PSIAS) define the following: -

Assurance audit

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Consulting audit

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

Control

Actions taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. It includes the following:

- Integrity and ethical values
- Management's philosophy and operating style
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The IIA defines the control environment as the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets

Caveat

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.