

Leicester  
City Council

### **MEETING OF THE AUDIT AND RISK COMMITTEE**

**DATE: WEDNESDAY, 28 SEPTEMBER 2022**

**TIME: 5:30 pm**

**PLACE: Meeting Room G.01, Ground Floor, City Hall, 115 Charles Street, Leicester, LE1 1FZ**

### **Members of the Committee**

Councillor Kaur Saini (Chair)

Councillor Dr. Moore (Vice-Chair)

Councillors Cassidy, Pantling Valand and Whittle

One Labour Group vacancy

One Non-Group vacancy

Members of the Committee are summoned to attend the above meeting to consider the items of business listed overleaf.

for Monitoring Officer

**Officer contact: Angie Smith**  
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- ✓ where filming, to only focus on those people actively participating in the meeting;
- ✓ where filming, to (via the Chair of the meeting) ensure that those present are aware that they may be filmed and respect any requests to not be filmed.

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## **PUBLIC SESSION**

### **AGENDA**

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#### **1. APOLOGIES FOR ABSENCE**

#### **2. DECLARATIONS OF INTEREST**

Members are asked to declare any interests they may have in the business to be discussed.

#### **3. MINUTES OF THE PREVIOUS MEETING**

**Appendix A**  
**(Pages 1 - 14)**

The Minutes of the previous meeting of the Audit and Risk Committee held on 20 July are attached, and Members will be asked to confirm them as a correct record.

#### **4. FINANCIAL UPDATE REPORT**

**Appendix B**  
**(Pages 15 - 42)**

The Deputy Director of Finance submits a report to the Audit and Risk Committee which provides an update on the progress of the statement of accounts and external audit for 2020/21 and 2021/22, and the decision of the Monitoring Officer to appoint Bipon Bhakri as an Independent Member of the Committee.

The Committee is recommended to note the contents of the report and the update provided on the progress of the external audit, and to support Bipon Bhakri in his role as the Independent Member.

#### **5. PROCUREMENT ANNUAL REPORT 2021/22**

**Appendix C**  
**(Pages 43 - 52)**

The City Barrister & Head of Standards submits a report, as required under the Council's Contract Procedure Rules, to the Audit and Risk Committee to inform them of the activity of the procurement function of the Council (which comprises three specialist procurement teams: Procurement Services, ICT Procurement and ASC Procurement) over the previous financial year and evidence compliance with the requirements of the Contract Procedure Rules.

The Committee is recommended to note the contents of the report and make any comments to the City Barrister & Head of Standards.

**6. ANNUAL INSURANCE REPORT 2022**

**Appendix D**  
**(Pages 53 - 60)**

The Deputy Director of Finance submits a report to the Audit and Risk Committee which presents an overview of the Council's internal and external insurance arrangements and provides information on the claims received in recent years, and the results of the claims handling process.

The Committee is recommended to note the contents of the report, and the Council's approach to ensuring it is managing the financial risk associated with the claims.

**7. ANNUAL REPORT ON THE NATIONAL FRAUD INITIATIVE**

**Appendix E**  
**(Pages 61 - 66)**

The Deputy Director of Finance submits a report to the Audit and Risk Committee the purpose of which is to provide an update on the National Fraud Initiative (NFI) exercises currently underway.

The Committee is recommended to note the contents of the report and make any comments it deems appropriate.

**8. PROGRESS AGAINST INTERNAL AUDIT PLANS 2021-22 AND 2022-23**

**Appendix F**  
**(Pages 67 - 84)**

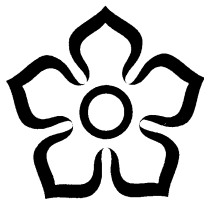
The Head of Internal Audit & Assurance Service submits a report to the Audit and Risk Committee which provides a summary of progress against the 2021-22 and 2022-23 Internal Audit Plans, including:

- 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. An update on progressing improvements to internal audit arrangements following a meeting regarding the CIPFA research report, 'Internal audit: untapped potential'

The Committee is recommended to note the routine update report.

**9. ANY OTHER URGENT BUSINESS**





Leicester  
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# Appendix A

## Minutes of the Meeting of the AUDIT AND RISK COMMITTEE

Held: WEDNESDAY, 20 JULY 2022 at 5:30 pm

### P R E S E N T :

Councillor Kaur Saini (Chair)  
Councillor Dr Moore (Vice Chair)

Councillor Bajaj  
Councillor Cassidy

Councillor Valand  
Councillor Whittle

\* \* \* \* \*

### **1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Pantling.

Introductions were made.

### **2. DECLARATIONS OF INTEREST**

Members were asked to declare any interests they might have in the business to be discussed.

Councillor Dr. Moore declared that her son worked for Leicester City Council. She further declared that she received a pension from Leicestershire.

Councillor Whittle declared that he received a Council pension.

Councillor Bajaj declared that he was a member of the Local Pension Board for the City and County, representing Leicester City Council as a scheme employer.

In accordance with the Council's Code of Conduct, the interests were not considered so significant that they were likely to prejudice the Councillors' judgement of the public interest. The Members were not, therefore, required to withdraw from the meeting.

### **3. MINUTES OF THE PREVIOUS MEETING**

#### **RESOLVED:**

That the minutes of the meeting held on 16 March 2022 be confirmed as a correct record.

Councillor Dr. Moore asked, as a matter arising under Minute 47. Corporate Complaints (Non-Statutory) 2020/21, when a report on complaints figures would be brought to a future meeting to establish if complaints figures had improved.

**ACTION:** The Deputy Director of Finance to add to the work programme for the Audit and Risk Committee.

### **4. MEMBERSHIP OF THE AUDIT AND RISK COMMITTEE 2022/23**

Members were asked to note the membership of the Committee for 2022/23 as:

Councillor Kaur Saini (Chair)  
Councillor Dr. Moore (Vice-Chair)  
Councillor Bajaj  
Councillor Cassidy  
Councillor Pantling  
Councillor Valand  
Councillor Whittle

One unfilled non-Group vacancy  
One unfilled Independent Member vacancy

#### **RESOLVED:**

That the membership of the Committee for 2022/23 be noted.

### **5. DATES OF MEETINGS OF THE AUDIT AND RISK COMMITTEE 2022/23**

Members were asked to note the meeting dates of the Committee for the 2022/23 municipal year as:

20 July 2022  
28 September 2022  
22 November 2022  
18 January 2023  
15 March 2023

#### **RESOLVED:**

That the meeting dates of the Committee for 2022/23 be noted.

### **6. TERMS OF REFERENCE**

Members were asked to note the Terms of Reference for the Committee, a



copy of which was circulated with the agenda.

RESOLVED:

That the Terms of Reference of the Committee as circulated be noted.

**7. DRAFT STATUTORY STATEMENT OF ACCOUNTS & ANNUAL GOVERNANCE STATEMENT 2021/22 / EXTERNAL AUDIT PLAN 2022-23**

The Chief Operating Officer (S151), Deputy Director of Finance, and External Auditor submitted a report to the Audit and Risk Committee which provided an opportunity for the Committee to consider the Council's Draft Annual Statement of Accounts and Annual Governance Statement for 2021/22 before being brought back to Committee for formal approval.

The Committee was recommended to consider the Draft Annual Statement of Accounts for 2021/22 at Appendix A, the Draft Annual Governance Statement at Appendix A, the update on the independent member recruitment, and the External Audit Plan at Appendix C.

Ben Matthews, Chief Accountant, presented the report and drew Members' attention to the following:

- The report touched briefly on the appointment of an independent audit and risk committee member, the post of which had been advertised in consultation with the Chair.
- The Draft Annual Statement of Accounts and Draft Annual Governance Statement had been brought to the Committee for consideration prior to being brought back to Committee in their final form in November 2022 for Audit & Risk Committee approval.
- The Annual Governance Statement as presented set out the framework in which the Council was operated, highlighting any significant governance issues, and provided an update on those previously identified.
- For the Annual Governance Statement, the Council follows CIPFAs 'Delivering Good Governance in Local Government' framework.
- The narrative report provided a background to the council and highlighted work it was doing including key pledges going forward and outcomes. It also provided a summary of the financial position of the Council and future outlook.
- The following items were highlighted from the Statement of Accounts 2021/22:
  - The change in how income was generated since the pandemic;
  - The valuation of an asset held in a Council museum had significantly increased.
  - COVID was continuing to have a significant impact on the unusable and usable reserves, largely due to government grants being paid ahead of need.
  - The pensions deficit of £596m. Members were reminded that this figure can fluctuate between years. It was noted this figure is based on the benefits an employee earns and their post-retirement

benefits. However, due to statutory arrangements the Council's deficit would be made good due to increased contributions of an employee and employer over their remaining working life before payments became due.

- Members Allowances and Officers'
- Members were informed of issues around the accounting of infrastructure assets, and subsequent CIPFA consultation on the resolution of issues. The Council would work through the CIPFA proposal once released to identify if this will impact the accounts. It was noted this is a national issue.

Members were then asked if they had any questions, and the following responses were made:

- Included in the narrative statement to the report, the in-year deficit in LLEP was noted. Members were informed that this was a planned deficit to enable additional investment in supporting businesses, which would be funded from LLEP reserves.  
ACTION: The Deputy Director of Finance would provide information to Members following the meeting.
- Noted was the extension of the publication deadline to 30 November 2022 for the Council's audited Statement of Accounts and Annual Governance Statement. It was explained that pressures in the external audit sector were being felt nationally with delays in completing audits in the previous year. External Audit explained this was mainly due to the additional work they are required to undertake. Hence the government had relaxed the publication deadline for the audit of 2021/22 but would revert to a publication deadline of 30 September for the audit of 2022/23 onwards.
- During the pandemic the Council had implemented Business Support Grants, Household Support Funds, and operated Test and Trace amongst other support.  
ACTION: The Deputy Director of Finance to circulate a list of schemes offered to local businesses and the public.
- It was further noted that the Better Off Leicester website had been launched recently, which enabled residents to check and maximise benefits, see support schemes, view a jobs section, and linked through to discretionary payments and Council Tax support forms, amongst other information that the site signposted to, such as Department for Work and Pensions. The site was a good tool for individuals and families to help them navigate through present problems.
- The Council had distributed to local businesses around £150million of funding over the course of the pandemic, the vast majority of which had nationally set eligibility criteria. It was reported that the first funding received on account from government was not distributed in its entirety and some had been returned to government, after every effort had been made to get businesses to apply for the funding. Some subsequent stages of the funding received had been overspent, with the overspend being claimed back by the Council from the government. It was further noted that discretionary funding of business grants where the government gave a fixed allocation had all been spent with some small overspends funded by the Council.
- With regards to fraud, the Council took positive counter fraud measures

during the application process. Very often Councils were criticised for not distributing the funding quickly enough. The Council had recognised the opportunity for fraud and had put some rigorous checks in place, balancing the need for checks with the need for businesses to receive the grants.

- It was not thought the council had been subject to any major fraud, though there had been some significant national frauds, for example, applications purportedly to be from Greggs. There were, however, some isolated low-level erroneous payments identified but not systemic fraud. Any necessary recovery action and criminal proceedings would be taken if there was sufficient evidence of fraud.
- Under personal support for residents, the Covid local winter grant had morphed into the Household Support Fund which was still in operation. The council had consistently spent all funding for the support of residents and had placed money in the Council Tax Support Scheme, and Discretionary Housing Payments.
- It was reported that £650 household payments from the DWP would be rolled out to claimants nationally through the benefits system and did not involve the Council.
- The £150 Council Tax Energy Rebate had come to and was being administered by the Council. The scheme was being paid to households in Bands A, B, C and D, approximately 96% of the households in the city. Leicester City Council had been one of the quicker paying authorities and had paid the vast majority of recipients by late April / early May, with only queries holding up payments to the remainder. Payments had been made into the bank accounts of residents who paid Council Tax by Direct Debit, which was about half of households. The remainder would be issued a Post Office voucher for £150. The Council had not required people to apply for the rebate, and vouchers would be sent direct to premises. Essentially all eligible people had been paid bar the ones with queries. If the Council spent more than the government had given, then a top-up could be claimed. If not all of the rebate was spent, that would be passed back to government.
- The government had also given the Council £836,250 as a discretionary fund which could be used to support households not eligible for the mandatory scheme.
- It was asked how much of the Right to Buy (RTB) sales money was available to build or acquire other Council Houses.  
ACTION: The Head of Finance to provide the information to Members.
- It was explained that figures in brackets indicated a net income (or a surplus). Figures not in brackets were a spend (or deficit). For the purposes of the Comprehensive Income and Expenditure Statement, Net Expenditure for 2020/21 was £164million, and for 2021/22 there was net income of (£475million). It was noted that the figure included accrual and estimate figures, for example, pension liability, and asset valuation. The increase in the income was because of asset valuations which had improved over the past year, and the pension pension liability had decreased. The change in those figures did not represent a change that affected the Councils spending power.
- Members noted the value of the heritage assets in the reports and asked if any of the assets could be sold to provide money for the Council. It was explained that insurance valuations did not mean the asset was worth the

amount stated on any particular piece. Legal advice would have to be sought on what the Council could and could not do with regards to its assets.

- Raised was the claim lodged by Biffa with the HMCTS. It was noted that the waste collection and disposal PFI contract with Biffa was substantial and clarity was sought by Members from External Audit as to whether there would be some provision made against the claim before the final accounts were signed off. It was reported that currently it was a contingent liability and the right classification. External Auditors would be seeking an update from officers before the accounts are finalised and the audit completed.

Grant Patterson of Grant Thornton, External Auditor, then presented the Council's external audit plan, and the following points were noted:

- The purpose of the audit was to give a conclusion and opinion on the Statement of Accounts. Key matters at page 199 in the report listed factors taken into account when determining risk of material misstatement. It was on those areas of accounts that External Auditors were expected to place the greatest audit effort.
- Significant risks identified were dictated by auditing standards and were highlighted at pages 202-205 in the report.
- The presumed risk of fraud was a rebuttable presumed risk that revenue might be misstated due to the improper recognition of revenue. It was ultimately concluded that with the controlled environment of the Council and the nature of those transactions that the actual risk of material fraud was low and External Audit could rebut those risks.
- In terms of the risk of management override of controls, it was non-rebuttable. External Audit would look for when management could circumvent control to achieve a particular outcome, and would focus work on journals, and also significant judgements and estimates in financial statements that could be subject to bias.
- Two other items of significant risk were the valuation of the pension fund net liability and valuation of land and buildings, including council dwellings, where management's processes and assumptions would be audited.
- Brought to the attention of Members were a couple of other areas of audit focus. One was around the valuation of infrastructure assets which were still the subject of discussion at CIPFA which might result in a change in the code of accounting practice. Secondly there was the completeness, existence and accuracy of cash and cash equivalents, and External Audit were enhancing their procedure around cash in general.
- There was a balance between an efficient and effective audit and an assurance there were no misstatement. On page 212 to the agenda, materiality was outlined, which was around £15million for the year, with a lower threshold set below £750k at which misstatement would not be reported to the Audit and Risk Committee as they would not be considered material.
- The risk assessment process was iterative and would continue on as things developed through the audit.
- The risks of significant Value for Money weaknesses were reported at page

215 in the report. It was noted it was the second year of new arrangements. Threats to financial sustainability and governance would be considered by auditors, such as the ongoing impacts of Covid-19.

- The final report would be taken to Full Council to show transparency, and was a recommendation that had come out from the Redmond Review as good practice.
- Audit fees were outlined at page 217 to the report, and included variations for additional work, with proposed additional fees. The fees were similar to 2020/21, with a slight increase in non-audit service. There had been one change from the last year as the Council had subscribed to CFO insights, and the External Auditor was satisfied they were not conflicted in the non-audit work they were undertaking.
- The Financial Reporting Council's (FRC) inspection had shown Grant Thornton as making progress and providing a quality service, which should give the Committee confidence that External Auditors were working in the right direction.
- It was noted that internal audit looked at the lower level of controls for cash handling, with the focus for External Audit being on bank reconciliation. It was further noted that there was a whole team dedicated to cash and bank control in the council.

The Chair thanked the officers for the report and looked forward to the final accounts coming back to Committee in November 2022.

**RESOLVED:**

That:

1. The Audit and Risk Committee note the Draft Annual Statement of Accounts for 2021/22, the Draft Annual Governance Statement, the update on the independent member recruitment, and the External Audit Plan.
2. The Deputy Director of Finance to provide information to Members on the in-year planned deficit in the budget for the LLEP.
3. The Deputy Director of Finance to circulate a list of schemes offered to local businesses and the public during and following the Covid pandemic.
4. The Head of Finance to provide information to Members on how much Right to Buy (RTB) sales money was available to the Council to build other Council Houses.

**8. PROGRESS AGAINST INTERNAL AUDIT PLANS AND THE INTERNAL AUDIT ANNUAL REPORT 2021-22**

The Head of Internal Audit and Assurance Service submitted a report to the Audit and Risk Committee, which provided a summary of progress against the 2021-22 & 2022-23 Internal Audit Plans, and an annual report on internal audit work conducted during 2021-22. The Committee was recommended to note the contents of the routine update report.

Neil Jones, Head of Internal Audit and Assurance Service (HoIAS),

Leicestershire County Council presented the report, during which it was noted that:

- Part 1 of the report provided a summary of progress against the 2021-22 and 2022-23 Internal Audit Plans, and a summary of resources used to close off and progress audits.
- Part 2 of the report was the annual report on internal audit work conducted 2021-22.
- Members were informed that the City Council had delegated its internal audit function to the County Council in November 2017, and the HoIAS was the head of internal audit for both Council's.
- Appendix 1 to the report listed individual audits that were closed off and those that were work in progress. It was noted that anything in bold font reflected a change since the previous Committee Meeting in March 2022. It was reported that good progress was being made into the current year of audits.
- Commentary on resources used reported there had been a period with the team carrying vacancies, but the team had pushed forward and was a lot more stable, producing a number of audits. It was noted a number of recruitment exercises had been undertaken, and another team member was planned to start in October.

*Councillor Cassidy left the meeting at 6:29pm*

- A key part of the report was progress with implementing high importance recommendations. Appendix 2 to the report provided a short summary of the issues. It was noted that high importance recommendations would continue to come to the Committee until the HoIAS was satisfied that it had been implemented properly.
- The report pointed towards recommendations that continued to be extended. Pressure would be put on those areas with support from the Deputy Director of Finance and Head of Finance to implement recommendations to close those audits down.
- Part 2 was HoIAS requirement to present an annual report and completed the cycle of internal audit work undertaken in 2021-22.
- There were specific requirements within the report, the most important was for the HoIAS to look at all the audit work undertaken, experiences and evaluations, and to give a formed opinion on the control environment.
- Despite some vacancies and some absences, the team had managed to conduct a programme of work that was sufficient for the HoIAS to give a positive opinion, which was explained at Paragraph 17 in the report.
- Annex 1 to the report explained the types of audits undertaken and things evaluated, including reviewing other committees and looking at key documents, which all helped the HoIAS to form an opinion.
- The remainder of the report covered Internal Audit performance over the year, and how the performance of the team conformed against standards and the effectiveness of that. It was reported there were a couple of areas in the quality programme that needed a push forward.
- It was noted that the Internal Audit service was trying to push back on the

length of time spent on grant certification, many of them Covid-related, as it used valuable resources.

The Chair thanked the officer for the report.

RESOLVED:

1. That Committee note the contents of the routine update report.

## **9. INTERNAL AUDIT PLAN 2022/23**

The Head of Internal Audit and Assurance Service (HoIAS) submitted a report to the Audit and Risk Committee, which provided an indication of internal audit work planned to be conducted during 2022-23, and information about a recently issued report 'Internal Audit: Untapped Potential', following extensive research by CIPFA. The Committee was recommended to receive the plan, note its contents, and seek clarification on any areas and then approve the plan, make any recommendation or comments it saw fit; and note the CIPFA report and support the HoIAS and Deputy Director of Finance by working together to make improvements to the service and arrangements.

The HoIAS presented the report, and it was noted that:

- A risk-based plan had been developed, with a reasonable span of audits across the three components of the control environment.
- Nothing had changed in the methodology, and there had been very good engagement with Directors on emerging risks.
- There was still some uncertainty with Covid moving forwards, and the plan would be fluid in case it needed to be changed, and conversations to be had with colleagues at the City Council on where to divert resources.
- The plan at Appendix 1 was split into components of Governance, Risk Management and Internal Control, but there were areas that would overlap. The grant audits were included, but the time spent on those was being reduced, and there was a contingency for anything additional that required attention during the year.
- Paragraph 22 in the report was highlighted for Members of the Committee for its importance and provided the HoIAS with an opportunity to remind Members of their help and support to the internal audit function to push through the plan. Any major changes to the plan would be brought back to the Committee.
- CIPFA undertook a major research project around internal audit in the public sector and subsequent report 'Internal Audit: Untapped Potential' was summarised at Appendix 2. Appendix 3 was an article written by CIPFA's governance advisor. The Chair of Audit and Risk Committee and Deputy Director of Finance had both contributed to the research. It was planned that the HoIAS would meet with the Deputy Director of Finance to go through the report and look at areas of potential improvement and would bring an action plan back to a future Committee meeting.

Members were given the opportunity to ask questions and the following

responses were provided:

- It was asked if the remit of Internal Audit included to look at the operation of HR in dealing with employment issues. It was reported that Internal Audit would look at the process but not necessarily individual cases but would ensure good governance was monitored and followed. It was further noted it was not included as a key risk by HR representatives, but a note was made to speak with managers to see if there were any underlying problems they might want assurance on.  
ACTION: It was reported that a report had been taken to Overview Select Committee on workforce and equalities. The Head of Finance would circulate the report to Members.
- The operation of the public phone lines at the Council was considered by Members to be an issue. The HoIAS stated the issue had not been brought to his attention but would likely form part of an audit of Customer Services if one took place. The Deputy Director of Finance stated that the answering of phones had been recognised as a problem, particularly during Covid, with people calling for grants, Council Tax, Housing Benefits and Housing Repairs, with call lines covered by the same pool of staff, and occasional technical problems. It was noted that call wait times had reduced to an average of five minutes (dependent on the time of day) and was being tracked closely with the aim of reducing the wait time further with the employment of more staff.
- It was questioned how effective Audit and Risk was as a committee, how was it currently measured, and did it need its own audit. The HoIAS informed the meeting that there was a lot more focus on Audit Committees, and in terms of working with the regional audit committee chairs there was further work ongoing in the form of an East Midlands Regional Audit Forum. Out of that could come training and CIPFA has revised its Audit Committee guidance documents, part of which was a self-assessment of audit committees effectiveness.
- The effectiveness of the Committee was also noted in value for money work. It was further noted that recruitment of the Independent Member was being progressed to add knowledge and expertise. Training was also scheduled for Committee Members throughout the year to enhance skills and knowledge of Members. The result of the self-assessment would be undertaken following recruitment of the Independent Member and reported back to the Committee in due course.

The Chair thanked the officers for the report and responses. The Chair asked with regards to Appendices Two and Three that Members contact the Deputy Director of Finance and/or Head of Finance with any improvements that they wished to see.

RESOLVED:

That:

1. The Audit and Risk Committee received the plan, noted its contents and approved the plan.
2. Noted the CIPFA report and supported the HoIAS and Deputy Director of Finance in working together to make improvements



to the service and its arrangements, with a future plan of action to be brought to a future meeting.

3. The Head of Finance to provide to Members a report taken to Overview Select Committee on the workforce and equalities in relation to the audit of HR.

#### **10. REGULATION OF INVESTIGATORY POWERS ACT 2000 - BI-ANNUAL PERFORMANCE REPORT JANUARY 2022 - JUNE 2022**

The City Barrister and Head of Standards submitted a report to the Audit and Risk Committee which advised on the performance of the Council in authorising Regulatory Investigation Powers Act (RIPA) applications from 1<sup>st</sup> January 2022 to 30<sup>th</sup> June 2022. The Committee was recommended to receive the report and note its contents and make any recommendations or comments it saw fit either to the Executive or to the City Barrister and Head of Standards.

Lynn Wyeth, Head of Information Governance and Risk, presented the report, and drew Members' attention to the following information:

- It was stated that covert surveillance was not undertaken very often and, as is written in the current report, 0 Directed Surveillance Authorisations and 0 Communications Data Authorisations had been sought from the Magistrates Court. Magistrates would only provide sign off for offences where people could go to jail for six months.
- Covert surveillance used more technology now, such as data matching.
- Offences for surveillance included fly tipping, blue badge fraud, abuse of benefit claims, etc.
- The number of covert surveillance undertaken was reported annually. Every three years the Team was inspected by the Investigatory Powers Commissioner's Office (IPOC) and the latest inspection occurred in February 2022 using a desktop exercise and was included with the report.
- The report showed the Council was in good order with no serious recommendations made.
- Advice on amendments to the retention and disposal policy was implemented, by ensuring evidence was not kept for longer than was necessary and was kept secure, and the consideration of safeguarding issued when collecting evidence.

The Chair received the report and noted its contents.

RESOLVED:

1. That the report be noted.

#### **11. REPORT OF THE AUDIT AND RISK COMMITTEE TO COUNCIL COVERING 2021/22**

The Deputy Director of Finance submitted a report to the Audit and Risk Committee which set out the Committee's achievements over the municipal year 2021/22. The Committee was recommended to approve the report for submission to the Council.

The Head of Finance presented the report, and the following points were noted:

- The annual report provided information on the activities the Committee completed over the past year, such as the Statement of Accounts approval, the receiving of risk management reports, the fact the Committee had met regularly, and was the standard report usually presented.

Members were asked to note the report and the following comments were made:

- A discussion took place which related to the previous agenda item's comments about the performance of the Committee, and whether the Committee was undertaking its role to the fullest.
- The potential provision of metrics and data was discussed such as, meetings – how many meetings were held, attendance figures, how long meetings lasted, how many questions were asked, and what actions were reported at the next meeting, etc. Once data was collected, patterns would be seen.
- The Committee carried a large amount of responsibility as to how the Council conducted its business.

Officers stated the report confirmed roles and functions had been completed by the Committee over the year, such as the agreement by Committee to recruit an Independent Member, confirmation the Committee was active in promoting its remit, ensuring it had the knowledge and expertise going forward and was a positive step. Information suggested such as the metrics going forward would be looked at for inclusion at future meetings.

The Deputy Director of Finance acknowledged the perspective of Members on where they felt the Committee was operating. He welcomed any suggestions and recommendations that could be made to improve its operation. He added that he felt the evening's meeting had been good, with a strong level of engagement and questioning at the meeting which had been good to see. He noted that external and internal auditors would have raised concerns on the performance of the Committee when required. It was further noted that the Chair was also involved with the East Midlands Regional Audit Forum as Chair which the Government and LGA had set up in 2022 and would be good for the Council's Audit and Risk Committee.

Grant Patterson, External Auditor, was asked if there was a difference in quality of challenge based on the political structure of an authority, whether balanced, or with one-dominant party. The External Auditor responded that the challenge in a meeting was not to do with politics but more to do with the confidence of individual members, and that the minutes should reflect the level of challenge.

He added that the point was covered in an External Auditor's Annual Report for 2021 which would be followed up again, with one area saying there were things the Audit and Risk Committee could do such as self-assess annually around its confidence in the skill set of the Committee, and once that was identified what

training was required.

The External Auditor continued that he believed the Council's Audit and Risk Committee provided an appropriate level of challenge, and that continuous training would provide Members with confidence and skill to challenge, and that he had no fundamental concerns, with a good level of questions at the meeting that evening, which was the Committee's role to oversee processes and arrangements and have assurance in auditors.

It was recognised that one challenge of an audit committee was continuity, with members changing, and that it was good to see the Chair in the role for the new municipal year.

It was acknowledged that added continuity would be gained with the addition of the independent member, with a professional background to challenge officers..

The Chair noted that over time, and joining with the East Midlands Regional Audit Forum, she had come to understand just how critical it was that Members knew what their role on the Audit and Risk Committee was. She added that the Team of support, in Internal and External Audit, and Teams in the Council were a good network of support for Members, and by looking at the committees of other authorities around the country she recognised just how good the Council's Committee was working. She added it was essential that Members read the reports before the meeting, with questions raised receiving answers either at the meeting or shortly thereafter.

The Chair added that the level and type of statistical analysis needed to be discussed further but felt that the Committee was doing what it needed to do, but was glad that the point had been raised. She said that as Chair it was her role to monitor and pick up on weaknesses, but on the whole the team worked very well and there were no concerns.

RESOLVED:

1. That the report be approved prior to its submission to Council.
2. Any suggestions and recommendations on the operation of the Committee that members may have to be forwarded to the Deputy Director of Finance.

## **12. AUDIT & RISK COMMITTEE WORKPLAN**

The Head of Finance presented the workplan for the Committee.

In response to a previous request by the Chair, it was noted that Corporate Complaints would be brought to the meeting in January 2023 with complete data.

It was noted that an extra meeting had been included for 2022/23 due to the busy schedule of reports that were due to be brought to the Committee.

RESOLVED:

1. That the workplan of the Audit and Risk Committee be noted.

### **13. CLOSE OF MEETING**

There being no other items of urgent business, the meeting closed at 7.15pm.

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## Financial Update Report

Audit & Risk Committee

Decision to be taken by: N/A

Date of Meeting: 28<sup>th</sup> September 2022

Lead director: Colin Sharpe, Deputy Director of Finance

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### Useful information

- Ward(s) affected: All
- Report author: Amy Oliver
- Author contact details: [amy.oliver@leicester.gov.uk](mailto:amy.oliver@leicester.gov.uk)
- Report version number: 1.0

## 1. Purpose of Report and Summary

- 1.1. To provide an update on the progress of the statement of accounts and external audit for 2020/21 and 2021/22.
- 1.2. To ask members to note the decision of the Monitoring Officer to appoint Bipun Bhakri as an independent member of the Committee, and to support him in the role.

## 2. Recommendations

- 2.1. The Committee is asked to note the contents of the report and the update provided on the progress of the external audit.
- 2.2. The Committee is asked to support Bipun Bhakri in his role as the independent member.

## 3. Report

### Statement of Accounts 2020/21

- 3.1. As members may recall, the statement of accounts was approved at your meeting in September 2021. As reported subsequently to the Committee, national issues have delayed the issuing of the final external audit opinion.
- 3.2. The first issue relates to the valuation of infrastructure assets in our accounts, in particular how expenditure is accounted for when we are improving existing infrastructure. There has since been a CIPFA consultation on how the matter might be resolved, and a working group has also been set up. However, no solution has yet been identified, and until a national resolution is found the external auditors cannot issue an audit opinion on our accounts (or those of other affected authorities).
- 3.3. In addition, the Government has delayed issuing the information we are required to supply for the national “Whole of Government Accounts” exercise. In turn, this has delayed the issuing of an audit opinion.

### Statement of Accounts 2021/22

- 3.4. The committee received the draft accounts at your July meeting. At that time, the external audit was underway. An update on progress is provided at Appendix A of this report.

3.5. It should be noted that issuing an external audit opinion for 2021/22 will be delayed for the same reasons as the 2020/21 accounts.

#### **Independent Member**

3.6. As reported at your July meeting, the Chair and Deputy Director of Finance were seeking an independent member to sit on the committee. Subsequently, Bipon Bhakri has been identified as a suitable candidate and his appointment has been approved by the Monitoring Officer. Bipon is experienced in both local government and finance, and has demonstrated that he has the necessary skills. The Committee is asked to support him in his new role.

### **4. Financial, legal, equalities, climate emergency and other implication**

#### **4.1. Financial implications**

The report provides details on the financial issues.

Amy Oliver, Head of Finance, ext 37 5667

#### **4.2. Legal implications**

There are no direct legal implications arising from the recommendations contained in this report.

Kamal Adatia, City Barrister & Head of Standards, ext 37 1401

#### **4.3. Equalities implications**

#### **4.4. Climate Emergency implications**

#### **4.5. Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)**

N/A

### **5. Other Implications**

<b><u>OTHER IMPLICATIONS</u></b>	<b><u>YES/NO</u></b>	<b><u>PARAGRAPH REFERRED</u></b>
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	

Crime and Disorder	No	
Human Rights / People on low incomes	No	
Corporate Parenting	No	
Health Inequalities Impact	No	

**6. Background papers:**

Agendas and Minutes of the Audit & Risk Committee meetings

**7. Summary of Appendices:**

Appendix A – External Audit Progress Update

**8. Consultations**

**9. 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)?**

**10. Is this a “key decision”? If so, why? No**



# Leicester City Council Audit Progress Report and Sector Update

**Year ending 31 March 2022**

28 September 2022

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction



## Your key Grant Thornton team members are:

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This paper provides the Audit and Risk Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Risk Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Grant or Nic.

# Progress at September 2022

## Financial Statements Audit

We undertook our initial planning for the 2021/22 audit to March 2022 and began work on your draft financial statements in July.

In July we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2021/22 financial statements.

We will report our work in the Audit Findings Report. We plan to be in a position to give our opinion on the Statement of Accounts by 30 November 2022\* subject to all queries raised being satisfactorily resolved.

A caveat to this is the on-going discussions within the sector in respect of the accounting for infrastructure assets as outlined on page 8. We are anticipating a statutory override to be introduced but our current understanding is that this will be delayed until late November/early December at the earliest, which therefore may impact on the efficacy of the 30 November deadline.

## Note

\* The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This has been enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. This confirms the deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements.

We will therefore be reporting no later than February 2023. There is a letter appended to this report, for the attention of the Chair explaining the reason for the delay.

# Progress at September 2022 (cont.)

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

23 Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Risk Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit Deliverables

## 2021/22 Deliverables

### Audit Progress Report

Report on certification work done in relation to the 2020-21 financial year.

**Planned Date**

March 2022

**Status**

Completed

### Audit Plan

We are required to issue a detailed audit plan to the Audit and Risk Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report, to include our initial value for money risk assessment.

July 2022

Completed

### Audit Findings Report

The Audit Findings Report will be reported to the November Audit and Risk Committee.

November 2022

Not yet due

### Auditors Report

This includes the opinion on your financial statements.

November 2022

Not yet due

### Auditor's Annual Report

This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.

February 2023

Not yet due

## 2021/22 Audit-related Deliverables

### Teachers Pensions Scheme – certification

This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.

30 Nov 2022

Not yet due

### Housing Benefit Subsidy – certification

This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.

31 Jan 2023

Not yet due

### Pooling of housing capital receipts - certification

This is the report we submit to the Department for Levelling Up, Housing and Communities (“DLUHC”). based upon the mandated agreed upon procedures we are required to perform.

TBC

Not yet due

# Results of Audit Work to date

The findings of our work to date, and the impact of those findings on the accounts audit approach, are summarised in the table below:

25

	Work performed	Conclusions and recommendations
<b>Internal audit</b>	We have reviewed internal audit's work on the Authority's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements or impact on our audit approach.
<b>Journal entry controls</b>	<p>We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy.</p> <p>As in the prior year we noted that there is a lack of established approval process for journals; instead placing reliance on the Council's day-to-day activities to identify any journals that were posted incorrectly.</p>	<p>Since November 2019 the Council has put in arrangements which mitigate this deficiency to a certain extent. Each individual journal is not counter signed but since that time all journals posted in the month are downloaded and split by the department which posted them. The principal accountant of the relevant department who posted them then picks a sample to review, making sure they should have been posted and are correct. This review is signed and dated by the principal accountant and returned to the corporate finance team.</p> <p>In our view, the lack of authorisation as at the point of posting is a control deficiency that heightens the risk in the control environment, and therefore our testing was enhanced to take this into account, ie our sample size for our substantive testing of journals has been increased.</p> <p>We understand that the Council and TCWG are aware of the deficiency and continue to be willing to tolerate the risk.</p>



	Work performed	Conclusions and recommendations
<b>Infrastructure assets</b>	<p>Infrastructure assets includes roads, highways, streetlighting and coastal assets. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address:</p> <ul style="list-style-type: none"> <li>• The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets.</li> <li>• The risk that the presentation of the PP&amp;E note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced.</li> </ul> <p>As reported in our audit plan we assessed that there is some risk of material misstatement that requires an audit response. We also reported that CIPFA were consulting on adaptations to the LG Code which we will factor into our response once the outcome is known.</p> <p>In order to be able to conclude whether there is a risk of material misstatement our response at this time is that we proposed the following:</p> <ul style="list-style-type: none"> <li>• assess risks of material misstatement related to infrastructure assets</li> <li>• update our understanding of the process to explain the Council's current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the Council's fixed asset register to confirm that the processes are being applied in practice</li> <li>• for a sample of assets or additions to infrastructure, we will enquire as to the basis of the asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations</li> </ul>	<p>We have held discussions with the Chief Accountant and have requested evidence and documentation in support of the Council's approach. A meeting will also be held shortly with officers from the Council's highways team as part of additional intelligence gathering in this matter.</p> <p>Pending receipt of this additional information our conclusion is outstanding as to whether there is a risk of material misstatement.</p> <p>Additionally, discussions are underway with DLUH (Department for Levelling Up, Housing and Communities) who are preparing to provide a statutory override in relation to this matter, but it is likely to still require the application of useful economic lives to be appropriate, and for there to be evidence and records supporting that that is the case.</p> <p>However, due to recent events it is likely that this statutory override will be delayed until late November/early December at the earliest, which therefore may impact on the efficacy of the 30 November deadline for publication of the Council's audited accounts.</p> <p>We will keep the Council's finance team abreast of updates as and when they become available.</p>



	Work performed	Conclusions and recommendations
<b>Review of information technology controls</b>	<p>Our information systems specialist performed a review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>To obtain an understanding of the information systems relevant to financial reporting, IT Audit specialists were deployed to complete a design and implementation review of IT general controls of the following applications:</p> <ul style="list-style-type: none"> <li>• i-Trent (HR and payroll system)</li> <li>• Civica (Housing Benefits)</li> <li>• Unit-4 (General Ledger)</li> <li>• Active Directory (domain controller authenticating and authorising users and assigning and enforcing security policies, eg password control)</li> </ul>	<p>The following tasks were completed as part of this review:</p> <ul style="list-style-type: none"> <li>• IT General Controls Testing: Design, implementation assessment over controls for security management; technology acquisition development and maintenance; and technology infrastructure.</li> <li>• Performed high level walkthroughs, inspected supporting documentation and analysis of configurable controls in the above areas.</li> <li>• Documented the test results and provided evidence of the findings to Leicester City Council's IT function's management for remediation actions where necessary.</li> </ul> <p>One deficiency was identified which we deem appropriate to bring to the attention of the as those charged with governance, as it impacts directly on our audit approach. This is the same deficiency as reported to the Committee in respect of the 2020/21 financial year.</p> <p>Administrative access to i-Trent and Unit 4 had been granted to users which also gives them the ability to enter financial transactions.</p> <p>The combination of access to undertake financial transactions with the ability to administer end-user security is considered a segregation of duties conflict. It increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement. Two recommendations were raised, (which are included within Appendix A of this report) but for the purposes of our audit testing, it is leading to additional work in relation to the users to whom the above findings apply.</p> <p>Our testing is being extended to ensure that we specifically assess any unusual activities, such as journals posted by the five identified users in the payroll team and five identified users in the finance team.</p> <p>We will report our conclusions in respect of this work in our Audit Findings Report but understand that the Council and TCWG are aware of the deficiency and continue to be willing to tolerate the risk.</p>

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit and Risk Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

**29** Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make Audit and Risk Committees compulsory for all councils, with each Audit and Risk Committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



# Levelling up White Paper – Department for Levelling Up, Housing and Communities (“DLUHC”)

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)  
([www.gov.uk](https://www.gov.uk))



# Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

# Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented “These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to ‘have regard to’ their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.”

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority’s functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.



# The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, Internal Audit: Untapped Potential, lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

3 Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

## Culture and governance

The Audit and Risk Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

## Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

## Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

## Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, Rob Whiteman share his views on this report.





# Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

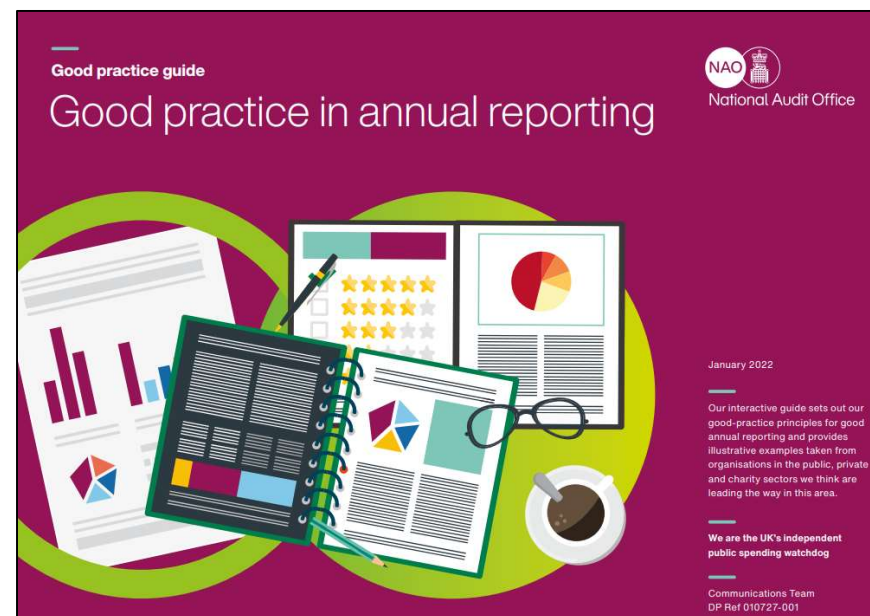
The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \(NAO\) Report](#)



# Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit and Risk Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit and Risk Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

# Guide for s on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “s are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

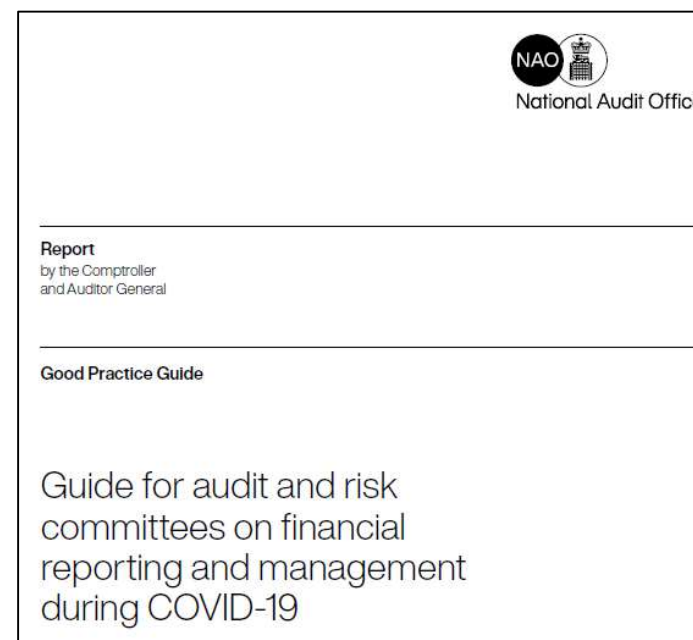
- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error



# Appendix A

# A. Follow up of prior year IT review recommendations

One recommendation was raised in the prior year as a result of a review undertaken by our IT audit team. This has been followed up below. Where the findings impact on our audit approach, we have set out the impact on page 9.

Assessment	Issue and risk identified in 2021/21 and recommendation raised	Follow up	Management response
●	<p><b>Segregation of duty conflicts within i-Trent and Unit-4</b></p> <p>Administrative access to i-Trent and Unit 4 had been granted to users who have financial responsibilities.</p> <p>The combination of financial responsibilities with the ability to administer end-user security is considered a segregation of duties conflict. It increases the risk of these elevated privileges being used to make unauthorised changes to the application, business processes or user accounts by over-riding internal system controls, which could lead to fraud and/or financial misstatement.</p> <p>It was recommended that:</p> <ol style="list-style-type: none"> <li>1. Management should consider reviewing access rights assigned to all system users to identify and remove conflicting access rights.</li> <li>2. Management should adopt a risk-based approach to create and reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business.</li> <li>3. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities (e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; etc).</li> </ol>	<p>Administrative access to i Trent (via 'LCITC SYSTEM ADMIN' and Unit 4 (via 'AG SYSTEM' role) has been granted to users which also gives them the ability to enter financial transactions. The combination of access to undertake financial transactions with the ability to administer end user security is considered a segregation of duties conflict.</p> <p>We noted that the following individuals had such elevated permissions</p> <p><u>i-Trent</u></p> <ul style="list-style-type: none"> <li>• 1 user as 'Corporate Payments Manager' from the payroll department</li> <li>• 3 users as 'Operational Pensions and Payment Officer' from the payroll department</li> <li>• 1 user as 'System Support and Development Officer' from the payroll department</li> </ul> <p><u>Unit 4</u></p> <ul style="list-style-type: none"> <li>• 2 users as 'Finance Systems Technician' from the finance team</li> <li>• 2 users as 'Accountant' from the finance team</li> <li>• 1 user as 'Systems Administrator' from the finance team</li> </ul> <p><b>Risks</b></p> <p>A combination of administration and financial privileges creates a risk that system enforced internal controls can be bypassed. This could lead to unauthorised changes being made to system parameters, creation of unauthorised accounts, or the deletion of audit logs or disabling logging mechanisms.</p> <p>We therefore reiterated the recommendations made in the prior year.</p>	<p><u>i-Trent</u></p> <p>A review of the rights assigned to the Admin role will be undertaken and duties segregated where possible.</p> <p><u>Unit 4</u></p> <p>The users in question need the access they have been given, in order to facilitate the smooth running of systems and processes that the Council has in place.</p>

## Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within the financial statements and/or directly impacting on the planned financial audit approach
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within the financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within the financial statements and no direct impact on the planned financial audit approach

# Appendix B

# VFM extension letter

Dear Councillor Manjit Kaur Saini,

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest.

Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

40

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2022 .

As a result, we have therefore not yet issued our Auditor's Annual Report (AAR), including our commentary on arrangements to secure value for money. We anticipate completing our audit work on the financial statements by the end of November and will therefore be issuing our AAR no later than 28 February 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Grant Patterson

Director







## Audit & Risk Committee Report

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### PROCUREMENT ANNUAL REPORT 2021/22

Lead director: **Kamal Adatia**

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## Useful information

- Ward(s) affected: **All**
- Report author: **Andrew Button**
- Author contact details: **Tel: 37 6184 Email: [andrew.button@leicester.gov.uk](mailto:andrew.button@leicester.gov.uk)**
- Report version number: **001**
- Date of report: **8 September 2022**

### 1. Summary

- 1.1 The Council's Contract Procedure Rules require an annual report after each financial year to the Executive and to the Audit & Risk Committee with certain information on the procurement processes undertaken in that financial year.
- 1.2 The purpose of this report is to inform the Committee of the activity of the procurement function of the council (which comprises three specialist procurement teams: Procurement Services, ICT Procurement and ASC Procurement) over the previous financial year and evidence compliance with the requirements of the Contract Procedure Rules.

### 2. Recommendations

- 2.1 The Committee is asked to note the contents of the report and make any comments to the City Barrister & Head of Standards.

### 3. Supporting information

#### Contract Procedure Rules

- 3.1 The Council approved revised Contract Procedure Rules on 19<sup>th</sup> March 2020.
- 3.2 For information, the Public Contracts Regulations (PCR) Thresholds were updated in December 2021 to come into force on 1 January 2022 for the next two years:
  - Social & Other Specific Services £663,540
  - All Other Goods & Services £213,477
  - Works and Concessions £5,336,937

The thresholds are now shown including Vat.

## Procurement Bill

- 3.3 There are no significant changes to procurement rules that will impact on procurement processes/plans in the short term. The Public Contracts Regulations 2015 (PCR) remain in force and are essentially the EU Rules adopted into English law as a result of Brexit. However, there is currently a Procurement Bill going through parliament, which once approved, will result in the publishing of the new procurement contract regulations, which are anticipated to have a notable impact.
- 3.4 This will see the combining of the current regulations, comprising:
- the Public Contracts Regulations 2015
  - the Utilities Contracts Regulations 2016
  - the Concession Contracts Regulations 2016
  - the Defence and Security Public Contracts Regulations 2011
- and a total re-write, into one set of combined regulations.
- 3.5 The approval of the Procurement Bill, will also act as approval for the National Procurement Policy Statement which was published as [PPN05/21](#) in June 2021. This requires contracting authorities to consider specific national priority outcomes alongside any additional local priorities in their procurement activities:
- creating new businesses, new jobs and new skills.
    - increasing opportunities for entrepreneurship and helping new and/or small businesses to grow, supporting higher economic growth and greater business creation.
    - increasing employment opportunities particularly for those who face high barriers to employment or who are located in disadvantaged areas.
    - extending training opportunities, particularly for people in industries with known skills shortages or in high growth sectors.
  - tackling climate change and reducing waste.
    - contributing to the UK Government's legally binding target to reduce greenhouse gas emissions to net zero by 2050.
    - reducing waste, improving resource efficiency and contributing to the move towards a circular economy.
    - identifying and prioritising opportunities in sustainable procurement to deliver additional environmental benefits, for example enhanced biodiversity, through the delivery of the contract.
  - improving supplier diversity, innovation and resilience
    - creating a more diverse supply chain to deliver the contract, which will better support start-ups, small and medium-sized businesses and VCSEs in doing business on public sector contracts.
    - increasing innovation and the use of disruptive technologies and business models throughout the supply chain, to deliver lower cost and/or higher quality goods and services and encourage the wider adoption of innovation.
    - contributing to the development of scalable and future-proofed new methods to modernise delivery and increase productivity.

- 3.6 There is greater emphasis being placed on transparency, with a proposed requirement to publish more information of the authority's contracts and contract management throughout the contract life, including spend and KPI's.

### **Procurement Processes Completed**

- 3.7 During 2021/2022 the Council completed 169 procurements via procurement teams with a total value over the contract lifetimes of approximately £165 million. The table below shows these splits by the procurement teams and by the value banding as per the Contract Procedure Rules. The table includes contracts procured using any procurement process, including waivers/exemptions. Many additional Small contracts will have been procured by departments and not recorded centrally.

	<b>Small</b>	<b>Medium</b>	<b>Large</b>	<b>PCR</b>	<b>Total</b>
<b>Adult Social Care</b>	0	5	6	2	<b>13</b>
<b>ICT</b>	2	8	1	5	<b>16</b>
<b>Procurement Services (Works)</b>	0	43	22	11	<b>76</b>
<b>Procurement Services (Goods/Services)</b>	3	13	16	32	<b>64</b>
<b>Total</b>	<b>5</b>	<b>69</b>	<b>45</b>	<b>50</b>	<b>169</b>

- 3.8 Contracts awarded include:

- Integrated Community Equipment Loans Service
- St Margaret's Gateway Scheme
- Managed threat Detection (XDR) software
- Domestic Abuse Perpetrator Intervention Service
- Transforming Cities Fund - A6 Corridor

### **Procurement Plan for 2022/2023**

- 3.9 As per the Council's Contract Procedure Rules, approved in 2020, the Procurement Plan is published on the Council's [Open Data website](#) for all to view and updated regularly rather than being published only annually. It is also wider in scope, including contracts from £20,000 upwards and looking two years ahead where possible.

### **Ongoing Impact of Covid-19**

- 3.10 During 2021/22, the Council's procurement function continued to play an important role in the response to the Covid-19 pandemic. The most significant part of this being in relation to procuring PPE to support in-house provision and act as a provider of last resort for the Council's social care providers and other care providers and similar organisations in the city. Given the urgency of requirements and instability of the supply market, the Council had to use Exemptions to procure on a spot-purchase basis outside of normal contracts. However, we have always been alerted to ensure the quality and compliance of items being purchased to

ensure they are suitable for use. Procurement Services has also supported the purchase of a range of items, including further PPE, cleaning supplies, and equipment to enable social distancing in offices and other Council buildings. A lot of this has also required exemptions under the provisions of the Contract Procedure Rules.

- 3.11 The Covid-19 outbreak also had impact on many ongoing procurement processes and some that were due to be commenced. Tender return deadlines were extended, and commissioning staff diverted away from procurement to other urgent activities. We have tried to tailor our approach to each contract taking into consideration the impact on service delivery and the market's ability to respond and implement a new contract. In many cases we have carried out some form of pre-market engagement to establish this. This meant that some contracts needed to be extended to ensure continuity of service provision until new contracts can be finalised and mobilised. Other contracts needed appropriate review and contract management to allow variations and relief to suppliers.
- 3.12 Internal audit had specifically reviewed this area to ensure that as we come out of Covid restrictions that this was no longer being used as an excuse for any relaxing of processes. Staff changes have made that a greater role of the weekly procurement panel meeting regarding the approval of any proposed exceptions to contract rules. The panel plays an important role in challenging this and in effect approving the rationale for any exceptions, which is an important defence to any potential procurement challenge. The pandemic is no longer considered to be an acceptable reason for 'relaxed' procurement activities.
- 3.13 The effects of Covid-19 continued to have an effect during this reporting period, and England returned to plan A on 27 January 2022.

### **New Capital Funding- Levelling-up**

- 3.14 The national and local response to economic recovery has nevertheless presented a range of opportunities for the Council with new funding streams to support a wide range of capital projects, which often have to be got underway very quickly. The Council's procurement function is working with the City Development and Neighbourhoods department finding quick and efficient procurement options to enable delivery of these projects within very tight timescales with minimal time available for planning. This has required some use of waivers/exemptions and framework agreements, in place of full procurement processes which, in some situations, would have required unacceptably long timeframes and therefore jeopardised the delivery in line with funding requirements. One examples of such schemes are the Leicester Railway Station redevelopment. Whichever process is followed a robust approach to due diligence and compliance with the regulations are conducted and challenged when necessary.

### **Social Value and the Living Wage**

- 3.15 The Council adopted its Social Value Charter in 2018 following work by the Economic Development, Tourism, and Transport (EDTT) Scrutiny Commission and implementation by the Assistant Mayor (Policy Development) and the Head of Procurement.

- 3.16 Social Value through procurement is becoming higher profile and will be the subject of work to embed further over the coming six months with increased focus, including a Social Value Portal to capture and put a value to the Social Value delivered.
- 3.17 The Council signed up to the Living Wage Foundation's Licence Agreement to become a Living Wage Employer. This means that the Council is implementing the Living Wage into all new procurement contracts which meet the criteria agreed with the LWF. This commitment is a key element of the Social Value Charter.

## Waivers

- 3.18 The Contract Procedure Rules require the Head of Procurement to report a summary of waivers (not exemptions) of the Rules to the Executive and Audit & Risk Committee. The tables below show an analysis of the Waivers approved during the current and last financial years. This is shown by both department and a broad categorisation of the reason for the Waiver. The increase is largely Covid related, and to avoid delays to large programmes such as the SALIX Decarbonisation schemes account for over £21m, and the Social Housing Decarbonisation Fund (SHDF) Wave 1 project accounts for an additional £6m of the total figure.

Reason for Waiver	2020/21		2021/22	
	Qty	Value	Qty	Value
Continuity of Provision	5	£2,326,910	29	£3,294,483
Urgency	7	£579,575	26	£34,159,769
Other	33	£8,127,314	7	£1,412,876
	<b>45</b>	<b>£11,033,799</b>	<b>62</b>	<b>£38,867,128</b>

Department	2020/21		2021/22	
	Qty	Value	Qty	Value
City Development & Neighbourhoods	35	£10,515,883	44	£32,714,976
Social Care & Education	5	£316,500	5	£1,334,760
Public Health	1	£10,000	8	£508,890
Corporate Resources & Support	4	£191,416	5	£4,308,502
	<b>45</b>	<b>£11,033,799</b>	<b>62</b>	<b>£38,867,128</b>

#### **4. Financial, legal and other implications**

##### Financial implications

- 4.1 There are no significant financial implications arising from this report. Robust procurement procedures should however help to secure value for money, minimise fraud and reduce the likelihood of any successful challenges to awards.

Colin Sharpe  
Deputy Director of Finance  
Ext 37 4081

##### Legal implications

- 4.2 There are no legal implications arising directly from the report as it is just for noting. Legal Services will continue to work collaboratively alongside the procurement teams, including with regards to preparations for the introduction of the forthcoming procurement legislation

Kevin Carter  
Head of Law (Commercial, Property & Planning)

##### Climate Change and Carbon Reduction implications

- 4.3 Whilst figures are not available, it is highly likely that procurement is Leicester City Council's largest source of carbon emissions, due to the embodied and outsourced emissions of the wide range of goods and services it procures. Following the council's declaration of a climate emergency in 2019 and ambition to achieve carbon neutrality by 2030 it is therefore vital that action is taken to reduce these emissions wherever possible.

The council's Sustainable Procurement Guidance provides information on limiting negative environmental impacts from procurement activity. This guidance should continue to be applied to procurement activities, by including sustainability requirements in specifications for goods, works and services and through specific sustainability-related questions within the quality/method statement evaluation process of procurement exercises wherever relevant. This will help ensure that procurement decisions support the achievement of the council's climate change related targets. The council's Social Value Charter also provides guidance on securing environmental sustainability-related benefits from procurements, in areas including carbon emissions, air quality, green space, waste and use of natural resources.

As noted in the report, the upcoming changes coming as part of the Procurement Bill and approval of the National Procurement Policy Statement will also specifically set out

the need for Local Authorities to consider tackling climate change and waste as part of their procurement work. As noted, this includes the need to reduce carbon emissions as part of national Government's own target to achieve net zero by 2050.

Aidan Davis  
Sustainability Officer  
Ext 37 2284

### Equalities Implications

4.5 The Equality Act 2010 sets out anti-discrimination law and the requirements of the public sector equality duty (PSED). The PSED requires public authorities to have due regard to the need to: eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.

Advance equality of opportunity between people who share a protected characteristic and those who do not and foster good relations between people who share a protected characteristic and those who do not.

To have 'due regard' means that when making decisions (and in its other day-to-day activities) the council must consciously consider the need to: eliminate discrimination, advance equality of opportunity, and foster good relations. This includes when it plans and makes decisions about its procurement.

Compliance with the PSED should help public authorities ensure that the goods and services they procure are fit for purpose thus ensuring they meet the needs of their users. As such it should also be seen as an effective tool for improving economy, efficiency and effectiveness and therefore value for money. The purpose of the procedure rules is to ensure that any procurement process for services, works or goods achieves best value and is transparent, open and fair making it possible for all decisions to be audited satisfactorily.

Social Value is defined through the Public Services (Social Value) Act 2012 (Act) which came into force in January 2013 and requires all public sector organisations (and their suppliers) to look beyond the financial cost of a contract and consider how the services they commission and procure might improve the economic, social and environmental well-being of an area.

Benefits can include increases in opportunities for disadvantaged people which can promote social mobility and help build stronger more resilient communities. The Living Wage has an obvious benefit for workers in that they are in receipt of enhanced wages and potentially therefore have greater spending power and a better quality of life, with subsequent knock-on effects for their families.

Leaving the EU has provided the UK with the opportunity to overhaul the public procurement regulations. The reforms proposed within the Procurement Bill aim to update procurement systems, so that every pound goes further for our communities and public services.

Surinder Singh



**5. Background information and other papers:**

5.1 None.

**6. Summary of appendices:**

6.1 None.

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

7.1 No.

**8. Is this a “key decision”?**

8.1 No



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## **Annual Insurance Report 2022**

Audit & Risk Committee

Date of meeting: 28<sup>th</sup> September 2022

Lead director: Director of Finance

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### **Useful information**

- Ward(s) affected: All
- Report author: Catherine Taylor, Financial Strategy & Insurance Manager
- Author contact details: 0116 454 4056; Catherine.taylor@leicester.gov.uk
- Report version number: 1

## **1. Summary**

This report:

- presents an overview of the Council's internal and external insurance arrangements;
- provides information on the claims received in recent years, and the results of the claims handling process.

## **2. Recommended actions/decision**

The Committee is recommended to note the contents of the report, and the Council's approach to ensuring it is managing the financial risk associated with claims.

## **3. Background**

This report updates the information presented to Audit & Risk Committee on 24<sup>th</sup> November 2021.

## **4. Report**

### **4.1 Risk Financing**

- 4.1.1 Risk Financing may be defined as the process by which the Council ensures sufficient funds are available to pay for financial losses, using the most cost effective sources of finance. For insurable risks (it should be noted that not all risks are insurable) this requires a balance between the amount of risk the Council is prepared to take, and the premium payable. The overall approach to risk financing is set out in the Risk Management Policy.
- 4.1.2 The most significant decision which affects this cost:risk balance is the level of "deductible" (excess) that the Council meets from its own resources. As with household policies, we can save money by taking a higher excess. High deductibles, however, also expose the Council to greater risk. The deductible is generally on a "per claim" basis, although the risk can be reduced further by including an aggregate limit which caps the total annual amount of the Council's exposure. The Council accepts very high deductibles, bearing the full cost of most claims itself, through the insurance fund (see below). This is because the Council is big enough to accept a

lot more risk than individual householders, and sees its external insurance primarily as cover for catastrophes.

- 4.1.3 Robust risk management across the organisation will reduce both the amounts payable in self-insured amounts and the external premium charged. However, it is neither possible nor desirable to eliminate all risks from service delivery. An effective strategy for financing these residual risks is therefore required.

## **4.2 Financial position – annual budgets**

- 4.2.1 Since 2020/21, the annual costs of insurance are held as a corporate revenue budget, outside departmental budgets. This funds the costs of external premiums, deductible payments on claims, and claims handling costs. Schools also pay for relevant insurances from their delegated budgets.

- 4.2.2 The 2022/23 budget has been reduced by £0.5m against previous years. This saving has been possible despite the continued difficult external insurance market, due to continued good performance on claims and an increase to the deductible on liability claims, which has reduced the external premium. The budget now stands at £2.5m per year, which covers both external insurance premiums and the cost of claims within the deductible.

## **4.3 Financial position – Insurance Fund**

- 4.3.1 As claims received can show considerable variations between years, the Council also holds a corporate insurance fund to smooth out the impact of actual costs on the annual corporate revenue budget from year to year, and to ensure that funds are available to meet claims when they occur.

- 4.3.2 The Council's policy is to maintain sufficient funding to meet all claims on a "claims occurring" basis. This includes legal and other costs associated with defending the claim, as well as any compensation due to the claimant. As a minimum, therefore, the fund will hold:

- Amounts required for claims received but not yet settled;
- Amounts required for claims relating to events that have occurred, but no claim has yet been notified to the Council (e.g. a person who is injured has 3 years to bring a claim against the Council in most cases).

- 4.3.3 The amount required in the fund at any time cannot be accurately calculated, and depends on a number of assumptions about liability and settlement amounts. The balance on the fund is reviewed at least annually, informed by officers' assessments of specific large claims and historical data. Further assurance is provided by an external actuary's report, normally every 2 years, although the review due for 2021 has been delayed due to the pandemic.

4.3.4 As at 31<sup>st</sup> March 2022, the balance on the insurance fund was £14.8m. For accounting purposes, this is split between a provision (for “known” claims) and an earmarked reserve for other costs, but in practice it is managed as a single fund. Evidence from the 2019 actuarial review and subsequent claims received indicates that this amount will be sufficient to meet claims to date, and may allow for a surplus. If future reviews confirm a further surplus is available, this can be made available for other purposes.

#### **4.4 External insurance**

4.4.1 In financial terms, the most significant classes of insurance are Property, Motor and Combined Liability (Employers’ and Public Liability).

4.4.2 The insurance market remains difficult, with cost pressures arising across the market. The key drivers of this are outside the control of any single organisation:

- For property insurance, the increasing risk of adverse weather events (e.g. flooding and storms). These events can have huge costs for insurers, resulting in multiple large claims from a single event;
- For liability and motor insurance, the ongoing trend of increasing costs in the most serious injury cases.

4.4.3 A summary of the current package of insurance is attached at Appendix One. The main insurance contracts come to an end on 30<sup>th</sup> September 2023, so these will be retendered in the coming 12 months.

4.4.4 In addition, one of our insurance providers (covering buildings insurance for leasehold properties) withdrew from the UK market, citing Brexit and the cost of meeting solvency requirements. As a result, the contract has been retendered and a new provider, Avid plc, is in place from 1<sup>st</sup> April 2022; this was achieved at a very similar cost to the previous policy. Leaseholders have been advised of the new policy and arrangements for making a claim.

#### **4.5 Claims information**

4.5.1 The greatest numbers of claims arise from activities connected to Highways Maintenance; motor claims; and Housing services. This is because of the nature of these service areas, and does not imply poor performance.

4.5.2 The following tables provide a summary of the claims received in significant categories, and the results of the claims investigations, from the past 3 years.

4.5.3 For Highways-related claims, repudiation rates (i.e. the proportion of claims where liability is successfully denied) are generally over 80% once claims are finalised. While reliable comparator data are not currently available, informal discussions with other authorities suggest that this is a significantly better result than the East Midlands average. Successful repudiation of Highways claims requires evidence of

a robust inspection and repairs process, which provides a legal defence to these claims.

### Public Liability – Highways – Personal Injury

Financial Year	LCC or contractor at fault	No fault	Still Under Investigation
2019-20	8 (11%)	59 (81%)	6 (8%)
2020-21	5 (13%)	26 (67%)	8 (21%)
2021-22	1 (3%)	14 (35%)	25 (63%)

### Public Liability – Highways – Property Damage

Financial Year	LCC or contractor at fault	No fault	Still Under Investigation
2019-20	6 (14%)	38 (86%)	0
2020-21	18 (35%)	34 (65%)	0
2021-22	3 (7%)	19 (44%)	21 (49%)

### Motor Policy claims

Financial Year	LCC at fault	Third Party at fault	50/50 fault or no fault identified	Theft / vandalism against LCC vehicles
2019-20	120 (67%)	40 (22%)	10 (6%)	8 (4%)
2020-21	80 (63%)	30 (23%)	13 (10%)	5 (4%)
2021-22	114 (57%)	65 (33%)	15 (8%)	6 (3%)

### Public Liability – Council Housing

Financial Year	LCC or contractor at fault	No fault	Still Under Investigation
2019-20	31 (26%)	83 (70%)	4 (3%)
2020-21	26 (33%)	45 (57%)	8 (10%)
2021-22	9 (17%)	27 (50%)	18 (33%)

4.5.4 Complex claims will often not be finalised until some years after the incident. As a result, the cost of claims arising in 2020 will not be finally known for some years. The amount actually *paid* from the insurance fund in each financial year (regardless of when the claim originated) on each of the major types of claim is shown below. (This does not include amounts met by insurers on large claims):

Policy Type	2019-20 £000's	2020-21 £000's	2021-22 £000's	3-year total £000's
General Property	77.4	92.7	212.4	382.5
Commercial Property	0.3	0.3	1.1	1.6
Employer's Liability	505.7	388.6	340.7	1,234.9
Public Liability	522.3	503.3	453.8	1,479.4
Officials / Professional Indemnity	7.7	0.0	13.4	21.1
Motor	372.5	180.9	153.9	707.3
<b>Total</b>	<b>1,485.8</b>	<b>1,165.7</b>	<b>1,175.3</b>	<b>3,826.8</b>

4.5.5 Amounts paid in an individual year are variable; however, the greatest costs to the Council are from employer's liability, public liability and motor claims. [Within this, employer's liability claims tend to be higher value per claim, but are fewer in number]. Other classes of insurance claim have a relatively small financial impact in most years. Whilst we get more claims in respect of highways and housing, these tend to be of lower value.



## **5. Financial, legal, equalities, climate emergency and other implications**

### **5.1 Financial implications**

The report is concerned throughout with financial implications.

### **5.2 Legal implications**

*[To be confirmed]*

### **5.3 Equalities implications**

No Equality Impact Assessment has been carried out as this is a briefing report and no policy changes are proposed.

### **5.4 Other implications**

No other implications are noted as this is a briefing report and no policy changes are proposed.

## **6. Summary of appendices:**

Appendix One – Summary of External Insurance Cover

## **7. Is this a private report?**

No

## **8. Is this a “key decision”?**

No

## Summary of External Insurance Cover – as at September 2022

	<b>Main features of cover</b>	<b>Insurer</b>	<b>Deductible (per claim)</b>
General Property	Buildings & contents insurance (including schools); including works in progress, and increased cost of working following a claim	AIG	£100,000 (general) £1m for social housing stock
Industrial & Commercial Property	Buildings cover for properties owned by the Council and rented out to third parties (e.g. shops, industrial units).	AIG	£250
Casualty (Combined Liability)	a) Employer's Liability – legal liability for injury / illness to employees (plus others carrying out Council business, e.g. elected Members and school governors). Employer's Liability insurance is a legal requirement. b) Public Liability – claims for personal injury or property damage by external third parties c) Professional Indemnity – claims alleging that professional services or advice have not been carried out correctly.	QBE	£375,000  £375,000  £375,000
General Motor Fleet	Comprehensive motor policy for Council vehicles. Motor insurance is a legal requirement.	QBE	£200,000
Personal Accident / Travel and School Activities	Personal accident cover for employees on Council business; travel insurance for employees on Council business and for school trips	Chubb	N/A
Engineering & Inspection	Inspection contract to meet statutory requirements on equipment; and associated insurance cover	Aviva	N/A
Fine Arts	Specialist cover for museum & art gallery collections	Axa Art	Nil

Please note that the table above presents only a broad summary of the insurance arrangements, and not the full detail of cover or exclusions.

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## **Annual Report on the National Fraud Initiative**

Audit and Risk Committee

Date of meeting: 28th September 2022

Lead director: Colin Sharpe,

Deputy Director of Finance

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## Useful information

- Ward(s) affected: All Wards
- Report author: Stuart Limb (Corporate Investigation Manager)
- Author contact details: (0116) 454 2615 / 37 2615 [stuart.limb@leicester.gov.uk](mailto:stuart.limb@leicester.gov.uk)
- Report version number: Version 3

### 1. Summary

- 1.1 The purpose of this report is to provide an update to the Audit and Risk Committee on the National Fraud Initiative (NFI) exercises currently underway.

### 2. Recommended actions/decision

- 2.1 The Audit and Risk Committee is asked to note the contents of the report and make any comments it deems appropriate.

### 3. Background

- 3.1 There are two separate NFI exercises in which the Authority participates. One involves data matching with external organisations, including other councils and the second involves matching data held within the Council.
- 3.2 Data for the 2020/21 external NFI exercise was submitted to the Cabinet Office in October 2020 and data was available for checking from 29<sup>th</sup> January 2021.

### 4. Detailed report

- 4.1 The Council has participated in the National Fraud Initiative since it was introduced. The exercise has evolved over the years and is now web based and managed by the Cabinet Office. The project involves electronically matching data from a number of sources in order to identify possible fraud or irregularity. This exercise is undertaken every two years.
- 4.2 The Cabinet Office identifies matches and allocates a risk score from 100% on a decreasing order. Officers are expected to examine the high risk first on a descending basis. There is no requirement to examine all of the remaining matches and officers are encouraged to select a sample where there are large volumes of data for checking.

4.3 Examples of the different matches include:

- Housing Benefit Claimants who are tenants at a different address.
- Housing Benefit claimants who are not entitled to claim because they are in receipt of Student Loans.
- Blue Badge Parking Permits, Concessionary Travel passes and Private Residential Care Home residents where the individual is recorded as deceased on the Disclosure of Death Registration Information (DDRI) or Department for Work and Pensions (DWP) list of deceased persons
- Duplicate creditors or duplicate payments to creditors
- Housing Benefit claimants who also appear on a local authority payroll
- Council Tax Reduction Scheme to payroll

4.4 All benefit fraud is investigated by the DWP, however the Cabinet Office still require the authority to undertake an initial check of the Housing Benefit claims before passing the matches to the DWP to investigate.

4.5 Work on the 2020-21 matches has nearly concluded. Over 8,000 matches have been checked to date, with no issues identified following investigation, as summarised in the table:

**Matches undertaken by 1<sup>st</sup> September 2022**

Total Matches	Matches Checked	Errors Identified	Frauds Identified	Overpayments Identified
14,752	8,336	2	Nil	£1,312

4.6 The data matches for the 2020/2021 exercise will become dormant after the new 2022/2023 exercise is launched in January 2023.

## 7. Financial, legal, equalities, climate emergency and other implications

### 7.1 Financial implications

There are no direct financial implications arising from this report. However, the initiatives described in this report are intended to detect fraud (which is an offence of a financial nature) and error, which cause significant financial loss to the Council.

Colin Sharpe  
Deputy Director of Finance

## 7.2 Legal implications

Fraud is a criminal offence and therefore represents breach of the law. Other forms of financial irregularity, though not criminal, may be in breach of regulation. The conduct of counter-fraud work of all kinds is bound by law and regulation and the Council is careful to ensure that its activities in this area are properly discharged.

Kamal Adatia  
City Barrister & Head of Standards

## 7.3 Equalities implications

The report provides an update on the National Fraud Initiative (NFI) exercises currently underway. The NFI, conducted by the Cabinet Office, involves data matching to help in the prevention and detection of fraud.

There are no direct equality implications arising from the report.

The data matching can identify inconsistencies that require further investigation and allows potentially fraudulent claims and payments to be identified. No assumption can be made as to whether there is fraud, error or another explanation until the investigation process is completed."

Surinder Singh, Equalities Officer

## 7.4 Climate Emergency implications

This report does not contain any significant climate emergency implications.

Duncan Bell  
Climate Change Manager

7.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

OTHER IMPLICATIONS	YES/NO	Paragraph references within the report
Equal Opportunities	<b>No</b>	
Policy	<b>No</b>	
Sustainable and Environmental	<b>No</b>	
Crime and Disorder	<b>Yes</b>	Whole report
Human Rights Act	<b>No</b>	
Elderly/People on Low Income	<b>No</b>	
Corporate Parenting	<b>No</b>	
Health Inequalities Impact	<b>No</b>	
Risk Management	<b>Yes</b>	This report is concerned with the prevention, detection and sanctioning of fraud. Fraud is one of the risks faced by the Council

**8. Background information and other papers:**

None – Information on the National Fraud Initiative is available at <https://www.gov.uk/government/collections/national-fraud-initiative>

**9. 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)?**

**No**

**10. Is this a “key decision”?**

**No**







**Leicester City Council Audit & Risk Committee**  
**28<sup>th</sup> September 2022**

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

**Progress against Internal Audit Plans 2021-22 and 2022-23**

**Purpose of Report**

1. The purpose of this report is to provide:
  - a. Summary of progress against the 2021-22 & 2022-23 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. an update on progressing improvements to internal audit arrangements following a meeting regarding the CIPFA research report, 'Internal audit: untapped potential'.

**Recommendation**

2. That the contents of the routine update report be noted.

**Background**

3. Within its Constitution, Leicester City Council (the Council) has delegated the function to provide an internal audit service to the Director of Finance. In January 2017, the City Mayor agreed to delegate the Council's internal audit function to Leicestershire County Council. The delegation was formally completed on 23 November 2017 and the management arrangements were transferred.
4. Within its Terms of Reference (revised May 2022) the Audit & Risk 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.
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 and there is recognition that some recommendations do require more time to fully implement.

To summarise movements within Appendix 1 as at 5<sup>th</sup> September 2022

- a. New
  - i. Key ICT Controls 2020-21 (September 2022)
- b. Ongoing/extended (date initially reported & number of extensions granted)
  - i. Financial Management & School Governance - LA Scheme for the Financing of Schools (June 2020 – 7)
  - ii. GDPR #2 (June 2020 – 6)
  - iii. Smoking Cessation (July 2022 – 2)
- c. Closed
  - i. Contract Audit - Contract arrangements during the COVID 19 period
  - ii. Social Value within Procurement

### **Summary of progress at 31<sup>st</sup> July 2022**

12. **Appendix 2** reports on the position at 31<sup>st</sup> July 2022. Updates (i.e. closures, movements in status, new starts and postponements) are shown in **bold font**. The summary position (with comparison to the previous position at 31<sup>st</sup> May 2022) is:

	<b>2021-22 @31/05/22</b>	<b>2021-22 @31/07/22</b>	<b>2022/23 @31/05/22</b>	<b>2022/23 @31/07/22</b>
<b>Outcomes</b>				
High(er) Assurance levels	<b>12</b>	<b>16</b>	<b>0</b>	<b>0</b>
Low(er) Assurance levels	<b>4</b>	<b>5</b>	<b>0</b>	<b>0</b>
Advisory	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
Grants/other certifications	<b>22</b>	<b>22</b>	<b>3</b>	<b>13</b>
HI follow ups – completed	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
<b>Audits finalised</b>	<b>42</b>	<b>49</b>	<b>3</b>	<b>13</b>
HI follow ups – in progress	<b>5</b>	<b>5</b>	<b>0</b>	<b>0</b>
<b>In progress</b>	<b>14</b>	<b>8</b>	<b>23</b>	<b>41</b>
Not yet started	<b>0</b>	<b>0</b>	<b>32<sup>1</sup></b>	<b>30</b>
Postponed/Rescheduled/ Cancelled	<b>31</b>	<b>0</b>	<b>0</b>	<b>1</b>

<sup>1</sup> A number of audits included in this figure has a block allocation, which means multiple audits are included in that block e.g. Contract Audit, Major Financial Systems Audit

### **Summary of resources used in 2022-23 (as at 31 July 2022)**

13. To close off 2021-22 audits, progress 2022-23 audits (reported in Appendix 2), and provide additional work relating to requirements such as planning, reporting to Committees etc, at 31 July 2022, Leicester City Council had received 303 days of internal audit input delivered (see below table).

	<b>@31/07/22</b>	<b>@ 31/07/2022</b>
<b>By type</b>	<b>Days</b>	<b>%</b>
Relating to prior years audits (*)	75	25
Relating to audits started 2022-23	195	64
<b>Sub-total audits</b>	<b>270</b>	<b>89</b>
Client management	33	11
<b>Total</b>	<b>303</b>	<b>100</b>
<b>By position</b>		
HolAS	10	3
Audit Manager	32	11
Audit Senior (incl. ICT)	87	29
Auditor	174	57
<b>Total</b>	<b>303</b>	<b>100</b>

(\*) 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. Leicestershire County Council Internal Audit Service's (LCCIAS) staffing situation continues to improve with a further Senior Auditor due to join the team in early October and a three month extension until the end of December to a Senior Auditor's agency contract has been made. Additionally, the team is due to start a trial of a guest data analytics placement student sponsored by De Montfort University. Using Data Analytics (DA) in audit work continues to be a key focus for Internal audit and this was used to good effect in a recent grant audit; further staff training will continue to ensure DA is used increasingly in other audits in the plan. These recent recruitments has helped develop experience and broaden the resource base within the team and naturally we are in better position than this time last year in terms of plan progress and days delivered 303 (July 2022) compared to 221 (August 2021). Nevertheless in some areas, audits have been slow to progress due to staff reorganisations/reviews that are taking place in the division; these have been brought to the attention client officers.

### **CIPFA research report 'Internal audit: untapped potential'**

15. At its meeting on 20<sup>th</sup> July 2022, the Committee was informed that CIPFA had undertaken a major research project around internal audit in the public sector and had produced a subsequent report 'Internal Audit: Untapped Potential'. The report was split into three main themes: -
- a) How internal audit is making an impact
  - b) The potential for internal audit

c) What is holding internal audit back?

Members were informed that there was much to reflect on in the report especially around expectations (of clients, Audit Committees, and internal auditors), perceptions and understanding and promoting the breadth of the service. Over the summer the HoIAS planned to meet with the Deputy Director of Finance to go through the report and look at areas of potential improvement and an action plan would be brought back to a future Committee meeting.

16. The Deputy Director of Finance met with the HoIAS and the Audit Manager in the middle of August. The HoIAS had pre-prepared his thoughts responding to a supporting document 'Ten questions to ask your internal auditors'. These were suggested questions that senior management and audit committees should be asking to obtain the maximum impact from internal audit. Comparing views on these questions with the head of internal audit may also lead to some useful discussions. The ten questions are included at Appendix 3.
17. The discussion was very open, frank and forward looking as to where improvements could be made in arrangements. Some were more immediate e.g. changes to the order of this report to bring key findings forward, seeking the Chairs view on providing more background on a specific audit, providing training on the types of audit methodology, and agreements to more use of data analytics and to changes/improvements to assignment reporting and the annual planning process. Others will need further conversations with key officers e.g. improving engagement with the Chair and Chief Officers and exploring the context of the HoIAS as a trusted advisor and the Committee reviewing the effectiveness of internal audit. A focus on developing assurance mapping would go some way to satisfying Chief Officers, the Committee, and others that internal audit was providing assurance in the right areas.
18. A further update will be provided to a future committee.

**Financial Implications:**

19. None

**Legal Implications:**

20. None.

**Equal Opportunities Implications**

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

**Climate Emergency Implications:**

22. 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)?**

23. No.

**Is this a “key decision”? If so, why?**

24. 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

**Officer to Contact**

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Leicestershire County Council  
Tel: 0116 305 7629  
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**Appendices**

Appendix 1	High Importance Recommendations as at 5 <sup>th</sup> September 2022.
Appendix 2	Summary of Internal Audit Service work undertaken between 1 <sup>st</sup> April 2022 - 31 <sup>st</sup> July 2022.
Appendix 3	Internal audit: untapped potential - ‘Ten questions to ask your internal auditors’

**High Importance Recommendations – Position at 5<sup>th</sup> September 2022**

<b><u>Audit Title (Owner)</u></b>	<b><u>Summary of Finding(s) and Recommendation(s)</u></b>	<b><u>Management Response</u></b>	<b><u>Action Date (by end of)</u></b>	<b><u>Confirmed Implemented</u></b>
<b>Reported Sept 2022</b>				
<b>Key ICT Controls (2020-21) (Head of IT Operations)</b>	<p>The audit identified a number of weaknesses, three high importance recommendations were made in the report :</p> <ol style="list-style-type: none"> <li>1. Adequate Disaster Recovery (DR) governance arrangements should be established.</li> <li>2. A High-level Disaster Recovery Test Strategy should be developed with lower-level assessments being undertaken for individual DR tests as they are planned.</li> <li>3. Resiliency testing of the network and key applications should be planned and undertaken as soon as possible</li> </ol>	<p>Agreed - In 2020 the Council invoked its Business Continuity Plans due to the pandemic. In 2021 the Council was in recovery and currently in 2022, IT are in the process of creating a new network and therefore DR and Governance will be reviewed as a result of these changes</p> <p>Currently being drafted alongside the implementation of the new network. Once the Governance is in place a Test Strategy will be drafted and DR tests planned.</p>	<b>Dec 2022</b>	
<b>Reported July 2022</b>				
<b>Contract Audit - Contract arrangements during the COVID 19 period (Head of Procurement)</b>	<p>The audit identified a number of weaknesses leading to a Partial Assurance rating, but no individual high importance recommendation was made. Recommendations related to fast tracked procedures, designed for the pandemic, are closely monitored and only used in exceptional cases; moving to position where these procedures are no longer relied on. Also ensuring the resourcing is sufficient to support the timely procurement process which is in full compliance with the Procurement Rules.</p>	<p><b>The Head of Procurement has completed the exercise of mapping the capacity of resource to manage the current workload, along with the impact of the changes to the regulations.</b></p> <p><b>This has resulted in the start of recruitment to fill the gaps; the Procurement Admin Team Leader</b></p>	<b>Sept 22</b>	<b>Yes</b>

		post has been filled and the <b>Procurement Manager post is currently being advertised to internal candidates, if not successful then this will be advertised externally.</b>		
Smoking Cessation (Public Health Consultant)	One high importance recommendation relating to performance reporting for smoking cessation was made. The audit identified weaknesses in the quarterly reporting of smoking cessation, missing data of actual performance was identified, consequently it was difficult to assess the progress against expected targets. Management reported issues with data extraction, from the bespoke IT system, has been a major factor in some of the missing data identified in quarterly reporting. Recommendation was made to ensure training is promptly facilitated by the IT Providers to help with the extraction of data to ensure reports provide a complete and accurate position for smoking cessation in the quarterly reports.	<b>The original target dates were delayed due to other work priorities and the Live Well Leicester team are now trying to confirm dates for training delivery with the supplier. Although it's the busy holiday season it is hoped that dates will be agreed by the end of August and that the required training will be delivered by the end of September.</b>	June 2022  July 2022  <b>Extend to Sept 22</b>	
Reported March 2021				
Social Value within Procurement (Head of Procurement)	<p>One High Importance recommendation was made in this audit report.</p> <p>Finding:</p> <p>Sample testing identified:</p> <ul style="list-style-type: none"> <li>Monitoring arrangement for Social Value (SV) Key Performance Indicators (KPIs) was not specified in the sample contracts</li> <li>There was no evidence to confirm that contract managers were monitoring the suppliers to ensure they had delivered their commitments and fulfilled their contractual obligations with regards to SV.</li> </ul> <p>Recommendation:</p>	<p><b>The remaining training sessions relating to the Social Value Portal, prior to go live are now planned, and will conclude on the 19th of September. This will then trigger the effective go-live of the portal.</b></p> <p><b>An options paper will go to the review group on the 21st to confirm this, and for approval.</b></p>	July 21  Dec 21  Jun 22  Sept 22	<b>Yes</b>



	The monitoring arrangements of SV - KPI's should be determined and included in the contract; these should be actively monitored by contract managers and periodically reported.			
Reported June 2020				
Schools' Governance – LA Scheme for Financing Schools (Head of Finance, Education and Children's Services)	<p>The Audit highlighted one High Importance recommendation:</p> <p>Finding: The Scheme for Financing has not been amended to reflect the mandatory revisions as notified in the DfE directed revisions dated 19/08/2015 or 22/03/2018.</p> <p>Recommendation: The Scheme for Financing Schools should be updated to reflect any directed revisions as notified by the DfE.</p>	<b>Work is underway with a view to Finalising the Scheme for Financing Schools document by the end of September 22.</b>	<p>June 20</p> <p>Dec 20</p> <p>June 21</p> <p>Aug 21</p> <p>Oct 21</p> <p>Dec 21</p> <p>Feb 22</p> <p>Sept 22</p>	
GDPR (Data Protection Officer - DPO)	<p>Within the earlier audit (Nov 18) it was confirmed that although Information Asset Registers (IAR) had been completed by relevant sections, gaps had yet to be identified – this could potentially lead to Data/Information breaches as gaps in compliance are not identified.</p> <p>Two High Importance recommendations were made:</p> <p>1. The Data Protection Officer should put forward a proposal to Senior Management if it is considered there is a need for additional resources to be allocated to undertake meetings with the Information Asset Owners in order to complete the IAR's and associated action plans.</p>	<p>1. An Information Governance assistant is now in post</p> <p>2. <b>Governance surrounding the use of data has been firmed up. An Open Data Governance Policy is in place which has been signed off by the Transformation board. The Data Warehouse Policy and a Data Quality Policy is currently</b></p>	<p>Jan 21</p> <p>June 21</p> <p>Sept 21</p> <p>Dec 21</p> <p>Jan 22</p> <p>Apr 22</p>	<p>1. Yes</p> <p>2. <b>No</b></p>

	<p>2. Meetings with Information Asset Owners should be undertaken as a matter of urgency to identify possible gaps in meeting Data Protection Act requirements. These gaps should then form sectional action plans which the relevant section should be monitored against.</p>	<p><b>in the process of being developed. There is an Enterprise Data Model in draft form. Once the governance is in place, work with Information Asset Owners will begin. The Data Protection Officer has shared Records of Processing Activities (ROPA) with the Enterprise Data Architect.</b></p>	Nov 22	
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Audit/A&RC/220928/Appendix 1 HI Progress Report  
Last Revised 5<sup>th</sup> September 2022

## Appendix 2 : Summary of Internal Audit work as at 31st July 2022

### Appendix 2: Leicester City Council 2022-23 Audit Plan (includes prior year audits b/fwd) - Finalised as at 31.07.2022

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Assurance Level
2020-21	Planned	Leicester City Council	IT & Information Assurances	IT Audits - Key ICT controls	Partial Assurance
2020-21	Planned	Leicester City Council	Contract & Procurement	Contract Audit - Housing	Substantial Assurance
2021-22	Planned	Leicester City Council	Significant Financial Systems	Major Financial Systems(MFS) Audit - Council Tax/NNDR	Substantial Assurance
2021-22	Planned	Leicester City Council	Systems & Governance	Tax Digital	Substantial Assurance
2021-22	Planned	Leicester City Council	Systems & Governance	Residential Financial Assessment	Substantial Assurance
2022-23	Planned	Leicester City Council	Internal Controls	LLEP - BEIS Growth Hub - Core	Certified
2022-23	Planned	Leicester City Council	Internal Controls	LLEP - BEIS Growth Hub - Peer Networking	Certified
2022-23	Planned	Leicester City Council	Internal Controls	Protect & Vaccinate Grant	Certified
2022-23	Planned	Leicester City Council	Internal Controls	Supporting Families - 1st claim (June 22)	Certified
2022-23	Planned	Leicester City Council	Internal Controls	Prevention & Promotion for Better Mental Health	Certified
2022-23	Planned	Leicester City Council	Internal Controls	Contain Outbreak Management Fund - 2020-21	Certified
2022-23	Planned	Leicester City Council	Internal Controls	Contain Outbreak Management Fund - 2021-22	Certified
2022-23	Planned	Leicester City Council	Internal Controls	Adriatic Land 7 Limited Service Charges	Certified
2022-23	Planned	Leicester City Council	Internal Controls	Green Homes Grant - Phase 1b	Certified
2022-23	Added to Plan	Leicester City Council	Internal Controls	Test & Trace Support Grant	Certified
2022-23	Added to Plan	Leicester City Council	Internal Controls	City Universal Grant	Certified
2022-23	Planned	Leicester City Council	Internal Controls	BEIS Public Sector Decarbonisation Scheme	Certified
2022-23	Planned	Leicester City Council	Internal Controls	Adult Weight Management Grant	Certified

### Leicester City Council : 2022-23 Audit Plan (includes prior year audits b/fwd) - Status as at 31.07.2022

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Current Milestone
2020-21	Planned	Leicester City Council	Governance & risk management	Climate change and carbon emissions	Draft awaiting to be issued
2021-22	Planned	Leicester City Council	Schools	Schools' Governance - Minibuses	Draft issued
2021-22	Planned	Leicester City Council	Systems & Governance	Direct Payments	Draft issued
2021-22	Planned	Leicester City Council	Schools	Schools' Governance - Safeguarding	Work in Progress
2021-22	Planned	Leicester City Council	Systems	B&B Emergency Planning (Phase 2)	Draft awaiting to be issued
2021-22	Added to Plan	Leicester City Council	Grant Certifications	Procurement: Publishing Obligations Under the Local Government Transparency Code 2015	Draft awaiting to be issued
2021-22	Planned	Leicester City Council	IT & Information Assurances	Tracking database	Draft awaiting to be issued
2021-22	Planned	Leicester City Council	Schools	Schools' Governance - Headteachers' Pay	Draft awaiting to be issued
2022-23	Planned	Leicester City Council	Contract & Governance	PH Contract Monitoring	Draft awaiting to be issued
2022-23	Planned	Leicester City Council	Systems & Governance	Construction (Design & Management) Regulation	Draft awaiting to be issued
2022-23	Planned	Leicester City Council	Internal Control	School Audits - Taylor Road Primary	Draft awaiting to be issued
2022-23	Planned	Leicester City Council	Internal Control	School Audits - Rolleston Primary	Draft Awaiting to be issued
2022-23	Planned	Leicester City Council	Internal Control	School Audits - Inglehurst Primary School	Draft Awaiting to be issued
2022-23	Planned	Leicester City Council	Internal Control	School Audits - Folville Junior School	Draft Awaiting to be issued
2022-23	Planned	Leicester City Council	Internal Control	School Audits - Parks Primary School	Draft Awaiting to be issued
2022-23	Planned	Leicester City Council	Systems & Governance	House Acquisitions	Work in Progress
2022-23	Planned	Leicester City Council	Governance	Social Care Reforms (including integration with Health)	Work in progress
2022-23	Planned	Leicester City Council	IT & Information Assurances	IT Audit: Unit 4 - Phase 2	Work in Progress
			Governance		

## Leicester City Council : 2022-23 Audit Plan (includes prior year audits b/fwd) - Status as at 31.07.2022

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Current Milestone
2022-23	Planned	Leicester City Council	Internal Control	Major Financial Systems(MFS) : Council Tax Rebates	Work in Progress
2022-23	Planned	Leicester City Council	Systems	Emergency Repairs	Work in Progress
2022-23	Planned	Leicester City Council	Governance	Ward Funding	Work in Progress
2022-23	Planned	Leicester City Council	Risk Management	Counter fraud	Working Progress
2022-23	Planned	Leicester City Council	Internal Control	Domiciliary Care	Work in Progress
2022-23	Planned	Leicester City Council	Internal Control	Bus Services Operators Grant (BSOG)	Work in progress
2022-23	Planned	Leicester City Council	Internal Control	Grant: National Productivity and Investment Fund	Work in Progress
2022-23	Planned	Leicester City Council	Internal Control	Leaseholder Accounts	Work in Progress
2022-23	Planned	Leicester City Council	Internal Control	Disabled Facilities Capital Grant	Work in Progress
2022-23	Planned	Leicester City Council	Internal Control	Grant: Local Transport Capital Block Funding	Work in Progress
2022-23	Planned	Leicester City Council	Internal Control	Major Financial Systems(MFS) : Supplier bank account amendments (fraud risk)	Planning
2022-23	Planned	Leicester City Council	Internal Control	Major Financial Systems(MFS) : Bank and key control account reconciliations	Planning
2022-23	Planned	Leicester City Council	Internal Control	Major Financial Systems(MFS) : Faster Payments (general, Excludes Treasury Management/Investments)	Planning
2022-23	Planned	Leicester City Council	Systems & Governance	Childrens Placements	Planning
2022-23	Planned	Leicester City Council	Contract & Governance	Council assets transferred	Planning
2022-23	Planned	Leicester City Council	Risk Management	Fire risk in owned and occupied buildings	Planning
2022-23	Planned	Leicester City Council	Systems	Section 106 Agreements	Planning
2022-23	Planned	Leicester City Council	Grants Certifications	Bus Recovery Grant	Planning
2022-23	Planned	Leicester City Council	Grants Certifications	Transforming Cities Grant (TCF1)	Planning
2022-23	Planned	Leicester City Council	Governance	Contract Audit - Supply chain management	Planning
2022-23	Planned	Leicester City Council	Governance	Risk of governance failings	Planning
2022-23	Planned	Leicester City Council	Governance	Contract Audits : Waivers and Exemptions	Planning
2022-23	Planned	Leicester City Council	Internal Control	Schools : KYB Financial Audits	Planning
2022-23	Planned	Leicester City Council	Internal Control	Establishment Audits	Planning
2022-23	Planned	Leicester City Council	Internal Control	Bus Lane Penalty Enforcements (BLPE)	Planning
2022-23	Planned	Leicester City Council	Internal Control	Recruitment System	Planning
2022-23	Planned	Leicester City Council	Internal Control	School Governance - SEND	Planning
2022-23	Planned	Leicester City Council	Internal Control	Critical Incidence	Planning
2022-23	Planned	Leicester City Council	Internal Control	Non Residential Financial Assessment	Planning
2022-23	Planned	Leicester City Council	Internal Control	Taxi Contract	Planning
2022-23	Planned	Leicester City Council	Internal Control	Green Homes Grant - Phase 2	Planning
2022-23	Planned	Leicester City Council	Internal Control	Grant : School's condition funding (capital maintenance works) SCA &DFC	Not started
2022-23	Planned	Leicester City Council	Internal Control	High Needs Provision Capital Allocations Grant	Not started
2022-23	Planned	Leicester City Council	Internal Control	Basic Needs Grant	Not started
2022-23	Planned	Leicester City Council	Internal Control	Ultra Low Emissions Vehicle (ULEV) Taxi Infrastructure Grant	Not Started
2022-23	Planned	Leicester City Council	IT & Information Assurances	IT Audit: Key ICT controls	Not Started
2022-23	Planned	Leicester City Council	Governance		
2022-23	Planned	Leicester City Council	IT & Information Assurances	IT Audit: Cyber security	Not Started
			Governance		

2022-23	Planned	Leicester City Council	IT & Information Assurances Governance	IT Audit: Digitisation projects e.g. replacement of Firmstep CRM	Not Started
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Leicester City Council : 2022-23 Audit Plan (includes prior year audits b/fwd) - Status as at 31.07.2022

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Audit Title	Current Milestone
2022-23	Planned	Leicester City Council	Internal Control	Major Financial Systems(MFS) : Payroll	Not started
2022-23	Planned	Leicester City Council	Internal Control	Major Financial Systems(MFS) : Treasury Management	Not Started
2022-23	Planned	Leicester City Council	Internal Control	Major Financial Systems(MFS) : Income streams - accounting and reconciliation	Not Started
2022-23	Planned	Leicester City Council	Governance	Contract Audits : Consultancy Contract	Not started
2022-23	Planned	Leicester City Council	Governance	Contract Audits : Contract monitoring	Not started
2022-23	Planned	Leicester City Council	Governance	Contract Audits : Evaluation Process	Not started
2022-23	Planned	Leicester City Council	Governance	Housing Stores	Not started
2022-23	Planned	Leicester City Council	Governance	CCTV	Not started
2022-23	Planned	Leicester City Council	Governance	Constitutional changes	Not Started
2022-23	Planned	Leicester City Council	Governance	Emergency Planning	Not Started
2022-23	Planned	Leicester City Council	Governance	Spend controls	Not Started
2022-23	Planned	Leicester City Council	Governance	Climate change and carbon emissions (phase 2)	Not Started
2022-23	Planned	Leicester City Council	Governance	Health & Safety phase 2	Not Started
2022-23	Planned	Leicester City Council	Risk Management	Information Governance	Not Started
2022-23	Planned	Leicester City Council	Internal Control	Asset Valuations	Not Started
2022-23	Planned	Leicester City Council	Governance	Assurance framework	Not Started
2022-23	Planned	Leicester City Council	Governance	LLEP	Not Started
2022-23	Planned	Leicester City Council	Risk Management	Business Continuity	Not Started
2022-23	Planned	Leicester City Council	Governance	Haymarket	Not Started
2022-23	Planned	Leicester City Council	Internal Control	Supporting Families - claims 2/3/4	Not started
2022-23	Planned	Leicester City Council	Internal Control	Transforming Cities Grant (TCF2)	Not started
2022-23	Planned	Leicester City Council	Internal Control	Grant :Social Housing Decarbonisation funding	Not started
2022-23	Planned	Leicester City Council	Internal Control	Green Homes Grant - Phase 3	Not started

Leicester City Council : Audit follow ups as at 05.09.2022

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Title	Current Milestone
2019-20	Planned	Leicester City Council	IT & Information Assurances	GDPR	In progress
2019-20	Planned	Leicester City Council	Governance	Financial Management & School Governance - LA Scheme for the Financing of Schools	In progress
2019-20	Planned	Leicester City Council	Contracts	Social Value in Procurement	In progress
2021-22	Planned	Leicester City Council	Systems & Governance	Smoking Cessation	In progress
2021-22	Planned	Leicester City Council	IT & Information Assurances	ICT General Controls	In progress
2021-22	Planned	Leicester City Council	Contract	Contract Audit - Contract arrangements during the COVID 19 period	Completed

Leicester City Council 2022-23 Audit Plan - Postponed or cancelled as at 31.07.2022

Audit Plan Yr	Plan State	Client Title	Audit Plan Area Names	Title	Current Milestone
2022-23	Planned	Leicester City Council	Governance	Contract Audits : CPR	Cancelled



# Internal audit: untapped potential

## Appendix B

## Appendix B:

# Maximising the impact of internal audit

### Ten questions to ask your internal auditors

Suggested questions that senior management and audit committees should be asking to obtain the maximum impact from internal audit. Comparing views on these questions with the head of internal audit may also lead to some useful discussions.

### Engagement with the organisation

1. Does internal audit receive the right level of support and engagement from the audit committee?
2. Does internal audit get good engagement from across the organisation when it plans and conducts audits?
3. Do managers within the organisation seek advice or assurance from internal audit?  
*What are the drivers of or obstacles to this?*
4. Has the head of internal audit indicated that resources (capability or capacity) need to increase?  
*What steps are being taken to address this?*



## Quality, impact and continual improvement

5. Does internal audit conform to PSIAS as demonstrated by an independent external quality assessment undertaken within the last five years?  
*For local government organisations, this should also include conformance with the Local Government Application Note.*
6. What action is internal audit taking to continually improve its quality, engagement and impact for the organisation?  
*Is internal audit considering the skills and competencies it will need in the future as well as now?*

## Assurance



7. Is there a clear view of the assurance that internal audit does, and does not, provide?  
*What assurance is provided by other functions or parties?*  
*Are there gaps in the assurance that management or the audit committee require?*
8. How do internal audit plans map to the organisation's strategic priorities and risks?
9. How is internal audit developing its approach to providing assurance – for example, making greater use of data or undertaking audits with a more strategic focus?

## Strategy

10. What factors currently determine our internal audit strategy?  
*Are we confident that the strategy will deliver our internal audit needs in the future?*



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