

Leicester City Council Audit & Risk Committee
17 March 2021

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

Internal Audit Service – Annual Plan 2021-22

Purpose

1. To provide the Audit & Risk Committee (the Committee) with an indication of internal audit work planned to be conducted during 2021-22.

Recommendations

2. The Audit & Risk Committee is recommended to: -
 - a. Receive the plan, note its contents and seek clarification on any areas as they wish and then approve the plan.
 - b. Make any recommendations or comments it sees fit either to the Head of Internal Audit Service (HoIAS) or Director of Finance

Background

3. Under the Accounts and Audit Regulations (2015), Leicester City Council (the Council) is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes'.
4. In January 2017, the Council's internal audit function was delegated to Leicestershire County Council.
5. Leicestershire County Council Internal Audit Service (LCCIAS) conforms to all relevant standards and legislation, particularly the Public Sector Internal Audit Standards (PSIAS).
6. PSIAS require the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control).

To form an opinion, the scope of internal audit work needs to be wide. The HoIAS prepares a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the City Council's goals. There needs to be sufficient internal audit work to gain assurance during 2021-22. The opinion is in turn one of the sources of assurance that the public body relies on for its annual governance statement.

7. Within its Terms of Reference, the Committee has a duty to consider, challenge and approve (but not direct) Internal Audit's strategy and plan and monitor performance on an annual basis. The Committee is designated as 'the Board' in the Council's Internal Audit Charter (revised March 2020).

Planning methodology

8. The provision of a risk based internal audit plan (the Plan) consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's governance framework, risk exposure and internal controls. To develop the scope of audit coverage, the HoIAS has researched and evaluated where risk might occur to the Council using methods including: -
 - a. Consulting on emerging risks, planned changes and potential issues with the statutory and other senior officers.
 - b. Evaluation of wider governance arrangements e.g. the most up to date risk registers, plans and committee reports
 - c. 'Horizon scanning' new and emerging risks from professional and industry sources
 - d. Comparisons against similar councils' audit plans
 - e. Discussions with the External Auditor especially around its planned approach to the revised value for money opinion and where it can work better with internal audit.
 - f. Identifying alternative sources of assurance that the HoIAS can place reliance on when forming his opinion.
9. The Plan has been devised to ensure that it delivers against the PSIAS i.e. that the internal audit activity must: -
 - c. assess and make appropriate recommendations to improve the Council's governance processes (including ethical and information technology governance).
 - d. evaluate the effectiveness and contribute to the improvement of risk management processes; and,
 - e. assist the Council in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement
10. Governance is defined in PSIAS as, '*The combination of processes and structures implemented to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives*'.

11. Amongst a wide range of governance themed audits, the HoIAS plans to undertake audits of LA involvement with Private Companies, procurement post Brexit and other governance changes.
12. Risk management is defined in PSIAS as, '*A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives*'.
13. The PSIAS advise that when constructing the Plan, the HoIAS should take into account the risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. The Council's Corporate Management Team has responsibility for identifying and managing risk and, the design, implementation and operation of robust internal control systems. The HoIAS plans to undertake risk management themed audits in the risk management and business continuity frameworks and the covid tracking database.
14. Internal Control is defined in PSIAS as, '*The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept*'.
15. Part of the Plan requires annual audits on key elements of the significant financial and IT systems. These audits are often used by the Council's External Auditors to assist their risk appraisal before auditing the financial statements. Other planned audits include grant certifications and major financial systems.
16. A contingency is retained for audits as yet not identified and any unplanned audit work e.g. special projects and investigations to be undertaken during the course of the year. Finally, an allocation is reserved for the HoIAS' client management and professional responsibilities (attendance at committees, form opinions and reports etc).

The Internal Audit Plan 2021-22

17. The attached Plan for 2021-22 (Appendix) contains a wide scope of audits that should allow the HoIAS to form an opinion on the overall adequacy and effectiveness of the Council's control environment. It is mostly based on assurances required by Leicester City Council Directors and their management teams. It is comparable to the risks affecting other local authorities and contains risks highlighted by internal audit and risk management professionals. The HoIAS intends to provide a minimum of 800 days internal audit service.

18. Most of the planned audits are an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on what assurance can be given that risk is being sufficiently mitigated. There are usually four levels of assurance: full; substantial; partial; and little. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation. These recommendations are reported in summary to this Committee and will stay within its domain until the HoIAS is satisfied that action has been implemented (usually after a follow up audit has been conducted). 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.
19. When it receives updates on completed audits, the Committee has a duty to review and challenge management's responsiveness to the internal audit findings and recommendations, seeking assurance that appropriate action has been taken where necessary and agreed recommendations have been implemented within a reasonable timescale.
20. LCCIAS also undertakes 'consulting' (advisory type audits). Examples include commentary on the effectiveness of management's intended control design and framework and potential implications of changes to/implementations of new systems, processes and policies.
21. Some resources will be required for audits started in 2020-21 that will be finalised in 2021-22.
22. The plan aims to give the optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be recognised that it is only a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes in business, risks and operations.
23. It is likely that the 2021-22 plan will be more fluid than normal as a result of the continuing impact of the pandemic on the Council's operations. The HoIAS has taken account of new audit priorities to cover the new risks and changes from the impact of COVID-19 and that work will provide support for the annual opinion. The impact of COVID-19 and the capacity of the Council to respond will likely continue to vary as a result of a number of factors for instance further operational disruptions that impact on the access of internal auditors to key staff, information or systems.
24. The HoIAS will discuss and agree any material changes with the Director of Finance and if required members of the Corporate Management Team and these would be reported to the Committee.

25. Detailed Terms of Engagement covering each audit's scope and any areas for exclusion are agreed with the relevant risk owners in advance of each audit.

Progressing the Audit Plan

26. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with the Council's management. LCCIAS' role and responsibility is to carry out independent and objective audits and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
27. On completion of each audit, findings will be discussed with the appropriate risk owner before issuing a draft report for comment. Final reports will be sent to Directors.
28. The HoIAS/Principal Auditor will meet regularly with the relevant officers to discuss progress and any issues arising. A progress report containing audits completed and summaries of any 'high importance' recommendations will be brought periodically to the Committee.

Resource Implications

29. The Council pays for LCCIAS to provide its internal audit activity

Equal Opportunities Implications

30. There are **no specific** equal opportunities implications contained within the annual summary of work undertaken.

Legal Implications

31. There are no direct additional legal implications arising from this report. These implications will rest within (and be reported by) the business areas that have day-to-day responsibility for managing their risk.

Background Papers

The Constitution of Leicester City Council
Accounts and Audit Regulations (Amendment) 2015
The Public Sector Internal Audit Standards (revised from April 2017)
Leicester City Council Internal Audit Charter (March 2020)

Circulation under Sensitive Issues Procedure

None

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Appendix

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