

# **Leicester City Council Head of Internal Audit Service Annual Report 2020-21**

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**Head of Internal Audit Service**  
**Annual Report 2020-21**

**Background**

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

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

6. **Annex 1** provides detail on how the annual internal audit opinion was formed, explains the types of audits undertaken, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinions reached.
7. The opinion is based on an objective assessment of the results of individual audits undertaken, actions by management thereafter and the professional judgement of the HoIAS in evaluating other related activities including the Council's plans and responses received. For 2020-21, the HoIAS reviewed actions taken to promote good governance, mitigate risk and retain control throughout the continuing coronavirus. The following opinion has been reached:

**The earliest months of the coronavirus significantly impacted normal routines and required that a number of functions needed to be provided differently and uniquely. There was a necessary shift from planned assurance work to more consulting and advisory on new service design and delivery. The requirement to certify covid grants was considerably higher than in previous years. However, no significant governance, risk management or internal control failings have come to the HoIAS' attention therefore reasonable assurance is given that the Council's control environment overall has remained adequate and effective.**

8. At the 31<sup>st</sup> May 2021, the outcomes of 14 audits (two first raised in the 2019-20 plan) hadn't been concluded with management. Their outcomes will not affect the opinion given.

### **A summary of the audit work from which the opinion is derived**

9. **Annex 2** lists the audits and other work undertaken by LCCIAS during the year and where appropriate contains the individual audit opinion.
10. Eleven prior year audits were concluded. Progressing the agreed 2020-21 plan was affected by the impacts of covid and as such a number of assurance audits were postponed and replaced by reactive consulting/advisory work and a significant increase in grant certifications. This was common across all local authorities.
11. Overall, for work completed at 31 May, 16 audits returned a 'substantial' assurance' rating, meaning the controls in place to reduce exposure to risks to achieving the system's objectives were well designed and were being operated effectively.
12. 7 audits resulted in partial assurance ratings. This was because either specific high importance (HI) recommendations (or a combination of several important recommendations) were identified denoting there was either an absence of, or a weakness in control and achievement of the service's objectives was open to material risk exposure. HI recommendations/partial assurance ratings are reported in summary to the Audit & Risk Committee

(the Committee) and they stay in the Committee's domain until the HoIAS has confirmed (by obtaining evidence or even specific re-testing) that action has been implemented. The HoIAS remains on the whole satisfied that senior management and Members pay attention to the implementation of HI recommendations/partial assurance ratings. However, he will actively monitor and report slippage in implementation which might indicate increasing pressures and strains on the control environment.

13. 'Consulting' type audits were undertaken. These can be defined as, *'Advisory and related client service activities, the nature and scope of which are intended to add value and improve an organisation's governance, risk management and control processes'*.
14. All but 1 of 4 audits of 'significant financial systems' (BACS) returned positive assurance ratings.
15. Because of the significant pressures on ICT staff, the regular key ICT controls work was agreed to be postponed but replaced by work which confirmed key ICT risks associated with the pandemic had been considered and action was taken where required to support the IT infrastructure and the demand for more remote working.
16. Because of their closures and covid restrictions, no maintained schools were audited.
17. 23 grants and other claims and returns were reviewed and certified as accurate. The covid-19 related grants incurred a substantial time input.
18. 11 follow up audits were conducted. This is invariably where high importance (HI) recommendations or other partial assurance ratings have previously been made. Progress against implementing HI recommendations/partial ratings is monitored and reported to Committee each meeting. Some 6 follow ups remained in progress at 31<sup>st</sup> May 2021.
19. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies. No reliance has been placed in 2020-21.

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

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

**Table 1: Overall performance against 2020-21 internal audit plan**

<b>Position as at 31 May 2021</b>	<b>Total</b>	<b>Complete</b>	<b>Draft issued</b>	<b>In progress</b>	<b>Postpone or Cancel</b>
Assurance audits	57	23	4	7	23
Consulting audits	5	5	-	-	-
Grants/other	26	23	-	3	-
Follow ups	11	5	-	6	-
<b>Total</b>	<b>99</b>	<b>56</b>	<b>4</b>	<b>16</b>	<b>23</b>

21. Internal audit plans are increasingly short-term statements of intent rather than guaranteed coverage and (as 2020-21 proved without doubt) they need to be flexible and retain contingency to adapt to changes in risk and priorities. Dealing with the unknowns and re-prioritising through the pandemic, put significant pressure on senior management, which meant that on occasions they were unable to respond to the Internal Audit Service which resulted in delays in starting some audits, for some audits management requested postponement until the pandemic subsided. The 2020-21 plan contained several potential areas for audit that for a variety of reasons didn't come to fruition. Some have been included in the 2021-22 plan.
22. Total 'productive' days provided for 2020-21 (1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021) work was recorded as 634. This is regarded as minimum though since some time may have been miscoded. Circumstances for 2020-21 were unique, but the HoIAS cannot allow days provided to be so low again as it was only just sufficient coverage to be able to form an opinion. A small reduction in payment was agreed with the Deputy Director of Finance.

Results were: -

<b>Function</b>	<b>2019-20</b>	<b>2020-21</b>
Audits (assurance, consulting, investigations)	706	<b>515</b>
Client management – includes committees	111	<b>119</b>
<b>Total</b>	817	<b>634</b>

23. Almost half of the time was provided by senior/experienced staff as follows: -

<b>Position</b>	<b>Days</b>	<b>%</b>
HolIAS & Audit Managers	175	28
Senior Auditors & ICT Auditor	127	20
Other	332	52
<b>Total</b>	<b>634</b>	<b>100</b>

24. There continues to be encouraging 'crossover' of 'original' County staff undertaking City based audits (and vice versa). Agency staff conducted City audits. Synergy was achieved i.e. where the same audit has been undertaken at City and County (especially covid grants).

25. Officers of LCCIAS regularly liaise with the Council's risk, counter fraud, procurement and information governance leads, shares consultation responses and governance and risk research and publications and feeds back information gathered from other local authorities to enable comparisons.
26. Of the seventeen customer satisfaction questionnaires issued, twelve were returned and all but one were satisfied with the audit process, a 92% satisfaction rate.

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

27. The HoIAS undertook a light touch self-assessment of LCCIAS's conformance to the PSIAS to confirm that the County Council's internal audit activity generally conforms with the International Standards for the Professional Practice of Internal Auditing. Notes supporting the self-assessment, and other changes, are reported in bold font in **Annex 3**.
28. The HoIAS also light touch reviewed the service's Quality Assurance and Improvement Programme (QAIP) and found that two new recommendations for improvement should be added, but three small improvements could be moved forward. All changes to the action plan on the last page of **Annex 4** are reported in bold font.
29. PSIAS Standard 1322 requires the HoIAS to confirm that whether there were any significant deviations from the PSIAS. Because of the impact of the coronavirus, 6 internal audit staff were redeployed to County Council operational services. The effect on overall resource available was reflected in a small discount being offered to and accepted by the City Council.

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

30. The HoIAS was provided with assurances that the interim arrangements for the newly appointed Chief Operating Officer to retain s151 responsibilities didn't need to be reflected in the AGS, and also that the AGS adequately reflected any governance changes brought about by covid-19.

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LCCIAS

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