

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of Leicester City Council's control environment
2020-21**

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Background

The Head of Internal Audit and Assurance Service, Leicestershire County Council undertakes the role and responsibilities of Leicester City Council's (the Council's) Head of Internal Audit Service (HoIAS). The HoIAS manages Leicestershire County Council's Internal Audit Service (LCCIAS). In April 2018, LCCIAS was independently externally assessed as generally conforming (the top rating) to the Public Sector Internal Audit Standards (the PSIAS). The PSIAS require the HoIAS to give an annual opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control). The PSIAS definition of the control environment is found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is **macro**-assurance over a defined period (financial year 2020-21) and is based upon a combination of:

- An objective assessment based on the results of individual audits undertaken and actions taken by management thereafter. Individual internal audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed are formed by applying systematic grading to remove any elements of subjectivity. **Annex 2** lists the audits and other work undertaken during the year and, where appropriate, the individual audit opinion. Individual audit engagements provide targeted **micro**-assurance. High Importance Recommendations/Partial Assurance Ratings
- The HoIAS role in preparing for, attending, reporting to and his observations of the work of the Audit & Risk Committee including engagement in specific training provided.
- The professional judgement of the HoIAS based on his knowledge, experience and evaluation of other related activities. This provides a holistic, strategic insight into the City Council's control environment.
- Specifically for 2020-21, the HoIAS' views on the Council's responses to the continuing coronavirus throughout the financial year

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

Governance related internal audit work

Governance arrangements were included in several audits including completing the range of audits covering Financial Management and School Governance, GDPR compliance, and the LLEP governance arrangements.

The HoIAS attends the Audit & Risk Committee (the Committee) to present plans and reports on the internal audit activity, which enables him to gauge officer and Member level governance at first hand and observe the training delivered to support their knowledge and role.

The HoIAS has reported on developments in local (external) audit including the Redmond Review and the revised Code of Audit Practice and explained how these might affect governance at the Council.

The HoIAS has discussions with the Director of Finance and the City Barrister & Head of Standards on governance issues and related internal audit aspects. The HoIAS has attended Management Teams when required.

Covid-19 specific

The HoIAS has continued to monitor the Council's governance responses during the coronavirus stages. He has reviewed minutes and webinars of the Overview Select Committee's updates to members. He reviewed the MHCLG report following a Rapid Stocktake of Lessons Learnt and Good Practice in the Management of Local Covid-19 Outbreaks in August 2020 and took assurance from the report's positive outcomes. The HoIAS was provided with assurances that the AGS adequately reflected a CIPFA suggestion to report any governance changes brought about by covid-19.

Risk management related internal audit work

A range of audits planned and conducted were 'risk based' i.e. ensuring that the Council's management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

Other risk management work was undertaken in consulting audits and developments to the overall control environment.

Covid-19 (and EU exit) specific

Overview Select Committee and Audit & Risk Committee reports provided assurance on the Council's multitude of risk assessments undertaken and that there had been early activation of its corporate business continuity plan. Additionally, the Audit & Risk Committee received a report on the Council's EU exit risk mitigation.

Financial (and ICT) Controls related internal audit work

Several audits were undertaken on areas of key financial systems – debtors, treasury, payroll and BACS. A significant amount of internal audit time was focussed on certifying grant claims, more than had been planned due to covid grants. All grants (and other returns) audited met their conditions to be certified.

Covid-19 specific

The rapid onset of the coronavirus significantly impacted the Council's IT services, resulting in a massive effort within a very short time to ensure staff could work at home. The regular planned annual key ICT controls audit was postponed (and so a formal opinion could not be formed on whether the wider ICT risks were being adequately mitigated). Nevertheless the ICT Auditor undertook some 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

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The Deputy Director of Finance and Chief Accountant invited internal audit to review and advise on controls in alternative service delivery models e.g. covid business grants (including extended local lockdown business grants) and supplier payments. Evidence was provided of the policy and procedures for controlling emergency procurement routines.

HolIAS opinion: 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 HolIAS' attention therefore reasonable assurance is given that the Council's control environment overall has remained adequate and effective.

Definitions

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

Assurance audit

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

Consulting audit

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

Governance

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

Risk Management

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

Control

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

Control Environment

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

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

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

Caveat

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

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