

Leicester City Council Audit & Risk Committee
20 July 2022

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

**Progress against Internal Audit Plans and the Internal Audit Annual
Report 2021-22**

Purpose of Report

1. The purpose of this report is to provide:
 - a. **Part 1** - a summary of progress against the 2021-22 & 2022-23 Internal Audit Plans including: -
 - i. information on resources used to progress the plans
 - ii. commentary on the progress and resources used
 - iii. summary information on high importance recommendations and progress with implementing them
 - b. **Part 2** - An annual report on internal audit work conducted during 2021-22 containing information on the internal audit function's conformance to professional standards, which provides an insight into its effectiveness

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 March 2021) 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. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation, which would be reported to this Committee and a follow up audit would ensue to confirm action had 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.
6. 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.
7. 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.
8. 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.
9. The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' timed to support the annual governance statement. The Council's Internal Audit Charter defines the Audit & Risk Committee as the Board and recognises that it has a duty on behalf of the Council, to approve the HoIAS' annual report and opinion on the Council's control environment and decide on any appropriate actions.

Part 1

Summary of progress at 31st May 2022

10. **Appendix 1** reports on the position at 31st May 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 31st January 2022) is:

	2021-22 @31/01/22	2021-22 @31/05/22	2022/23 @31/05/22
Outcomes			
High(er) Assurance levels	2	12	0
Low(er) Assurance levels	1	4	0
Advisory	2	2	0
Grants/other certifications	21	22	3
HI follow ups – completed	0	2	0
Audits finalised	26	42	3
HI follow ups – in progress	1	5	0
In progress	30	14	23
Not yet started	10	0	32¹
Postponed/Rescheduled/ Cancelled	16	31	0

Summary of resources used in 2022-23 (as at 31 May 2022)

11. To close off 2021-22 audits, progress 2022-23 audits (reported in Appendix 1), and provide additional work relating to requirements such as planning, reporting to Committees etc, at 31 May 2022, Leicester City Council had received 158 days of internal audit input delivered (see below table).

	@31/05/22	@ 31/05/2022
By type	Days	%
Relating to prior years audits (*)	61	39
Relating to audits started 2022-23	80	50
Sub-total audits	141	89
Client management	17	11
Total	158	100
By position		
HolAS	4	3
Audit Manager	31	20
Audit Senior (incl. ICT)	37	23
Auditor	86	54
Total	158	100

¹ 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

(*) 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

12. Leicestershire County Council Internal Audit Service's (LCCIAS) staffing situation has improved again since last reported in March with the appointment of a further experienced Senior Auditor. Exploration of using guest auditors for data analytics audits is continuing.

Progress with implementing high importance recommendations

13. The Committee is also tasked with monitoring the implementation of high importance (HI) recommendations which primarily lead to low assurance levels. **Appendix 2** 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 evidence or even specific re-testing by an auditor) that action has been implemented.

14. As part of the process of determining his annual opinion, the HoIAS takes account of how management responds to implementing high importance recommendations. Responses are generally positive and there is recognition (especially with covid disruptions) that some recommendations do require more time to fully implement.

15. To summarise movements within Appendix 2 as at 17th June 2022

- a. New
 - i. Contract Audit - Contract arrangements during the COVID 19 period
 - ii. Smoking Cessation
 - iii. LLEP- Careers Hub
- b. Ongoing/extended (date initially reported & number of extensions granted)
 - i. Social Value within Procurement (March 2021 – 4)
 - ii. Financial Management & School Governance - LA Scheme for the Financing of Schools (June 2020 – 6)
 - iii. GDPR #2 (June 2020 – 6)
- c. Closed
 - i. LLEP- Careers Hub
 - ii. Eyres Monsell Primary School
 - iii. GDPR #1

Part 2

Internal Audit Annual Report 2021-22

16. The HoIAS' annual report must include:
- a) an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment
 - b) a summary of the audit work from which the opinion is derived
 - c) a comparison of the work actually undertaken with the work that was planned to include a summary of the performance of the internal audit function
 - d) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)
 - e) any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement
17. The annual report for 2021-22 is provided in **Appendix 3**. The report includes the HoIAS opinion. For 2021-22, the HoIAS reviewed actions taken to promote good governance, mitigate risk and retain control during the continuing coronavirus.

HoIAS opinion: Whilst Covid-19 and other staff absences and unplanned vacancies (along with a corresponding difficulty to recruit) caused some disruption to resources, there was a return to more assurance than consulting work, however the requirement to certify grants remained a burden. Nevertheless the HoIAS considers there was just sufficient internal audit coverage across the control environment to be able to give an opinion.

Whilst a number of audits returned partial assurance ratings, management accepted and responded to recommendations. Nothing else of significance has been brought to his attention so the HoIAS considers that during 2021-22, reasonable assurance can be given that the Council's control environment remained overall adequate and effective.

The HoIAS opinion is also contained in the Council's draft AGS.

18. **Annex 1** provides detail on how the annual internal audit opinion was formed, defines the types of audits, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinion reached.
19. **Annex 2** lists the audits undertaken during the year. For assurance audits the individual audit opinion is given.
20. **Annex 3 (see link at end of report)** - is the position after the June 2022 self-assessment conducted by the HoIAS of the Service's general conformance to the PSIAS. Supporting notes are reported.
21. **Annex 4 (see link at end of report)** - is the position after the HoIAS review of the Quality Assurance and Improvement Programme (QAIP). The last page shows some actions are overdue. The 'footer' date is incorrect.

22. Headlines from the report are: -

- a. Despite the impact of vacancies and absences, the HoIAS overall opinion on the adequacy and effectiveness of the control environment remained positive.
- b. A majority of assurance audits conducted returned substantial assurance ratings. Those where less assurance was given will continue to be subject to further internal audit scrutiny.
- c. Audits of grants remains a drain on resource
- d. There's a relatively small carry over of work
- e. Days provided were similar to the previous year. Some compensation will be agreed.
- f. Customer satisfaction remained positive
- g. Additional assistance beyond the Internal Audit Plan was provided.
- h. Development and training continued. The Service generally conforms to PSIAS. The QAIP has been updated with some action due dates moved forward

Financial Implications:

23. None

Legal Implications:

24. None.

Equal Opportunities Implications

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

Climate Emergency Implications:

26. 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)?

27. No.

Is this a "key decision"? If so, why?

28. 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 2020-21 and 2021-22

Officer to Contact

Neil Jones, Head of Internal Audit & Assurance Service
Leicestershire County Council
Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

Appendices

- Appendix 1 - Summary of Internal Audit Service work undertaken between 31st January 2022 – 31st May 2022.
- Appendix 2 - High Importance Recommendations as at 17th June 2022.
- Appendix 3 - Head of Internal Audit Service Annual Report 2021-22
- Annex 1 - HoIAS Annual Opinion 2021-22.
- Annex 2 - Summary of IA work supporting the HoIAS opinion 2021-22.
- Annex 3 - LCCIAS Summary Self-Assessment Conformance to PSIAS (June 2022)

<https://politics.leics.gov.uk/documents/s169966/Annex%203%20-%20Summary%20-%20Self-assessment%20of%20conformance%20with%20PSIAS%20-%20June%202022%20final.pdf>

- Annex 4 - LCCIAS Quality Assurance Improvement Programme (June 2022)

<https://politics.leics.gov.uk/documents/s169993/Annex%204%20-%20LCCIAS%20QAIP%20with%20action%20plan%20-%20June%202022.pdf>