

**The Head of Internal Audit Service's Annual Opinion  
on the overall adequacy and effectiveness  
of Leicester City Council's control environment  
2021-22**

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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 2021-22) 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.
- The HoIAS' role in preparing for, attending and reporting to the Audit & Risk Committee and his observations of other reports and 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.
- For 2021-22, the HoIAS' views on the Council's continuing responses to the 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 reviewed in several audits including contract arrangements during the COVID 19 period, Smoking Cessation and LA involvement with Private Companies. Overall, recommendations were to improve governance i.e. not to have to establish it. The HoIAS provided a brief review and commentary on the Council's approach to complying with the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code

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

The HoIAS continued to report 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. He also informed the Committee about: -

- the upcoming need to make decisions about external audit arrangements for the period commencing from the financial year 2023/24.
- projects that CIPFA was undertaking that related to public sector internal audit and audit committees

The HoIAS took assurance from an overall positive Auditor's Annual Report for 2020-21, including in the external auditor's work on VfM arrangements for 'Governance' specific reference to, *'Internal Audit has demonstrated itself to be a dynamic service capable of reacting and responding to changing circumstances'*.

In order to gauge effective scrutiny, the HoIAS reviewed a number of Overview Select Committee webinars and associated certain reports including the Scrutiny Annual Report and presentation on the new ways of working programme.

The HoIAS had regular discussions with the Director of Delivery, Communications and Political Governance Deputy, the City Barrister & Head of Standards, and the Director of Finance on governance related aspects, for example: -

- Centre for Governance & Scrutiny – opportunities for collaboration between Scrutiny and Audit Committees
- CIPFA - Advisory Note on Governance
- Audit & Risk Committee Independent Members – the HoIAS provided evidence and information collated from research on IMs with his peer HoIAS and CIPFA

The HoIAS attended Management Teams to discuss the contents of internal audit plans.

### **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. Specific audits of the Council's risk management arrangements and Business Continuity planning within maintained schools were undertaken. The HoIAS took assurance from the Auditor's Annual Report for 2020-21 VfM arrangements for 'Governance' where an overall positive view was taken of risk management.

### **Financial (and ICT) Controls related internal audit work**

Several audits were undertaken on areas of key financial systems – council tax and NNDR and payroll and an audit of revised finance roles and responsibilities was positive. A significant amount of internal audit time was focussed on certifying grant claims. All grants (and other returns) audited met their conditions to be certified.

### **Covid-19 specific**

The HoIAS continued to monitor the Council's governance responses during the coronavirus stages. He reviewed webinars and the minutes of the updates to members of the Overview Select Committee. The HoIAS has confirmed that the draft Annual Governance Statement briefly reflects governance arrangements through covid during 2021-22 but has taken additional assurance from the Auditor's Annual Report for 2020-21 which didn't identify any significant weaknesses in the VFM arrangements for responding to the covid pandemic.

**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.**

## **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'.