

Leicester City Council Audit & Risk Committee
20 July 2022

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

Internal Audit Annual Plan 2022-23

Purpose

1. To provide the Audit & Risk Committee (the Committee) with an indication of internal audit work planned to be conducted during 2022-23.
2. To provide the Committee with information about a recently issued report 'Internal Audit: Untapped Potential', following extensive research by CIPFA.

Recommendations

3. 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 Deputy Director of Finance
 - c. Note the CIPFA report and support the HoIAS and Deputy Director of Finance working together to make improvements to the service and arrangements.

Background

4. 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.
5. In January 2017, the Council's internal audit function was delegated to Leicestershire County Council.

6. Leicestershire County Council Internal Audit Service (LCCIAS) conforms to all relevant standards and legislation, particularly the Public Sector Internal Audit Standards (PSIAS).
7. 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 Council's goals. There needs to be sufficient internal audit work to gain assurance during 2022-23. The opinion is in turn one of the sources of assurance that the Council relies on for its annual governance statement.

8. Within its Terms of Reference (revised in March 2021), the Committee has a duty to review and approve the risk-based internal audit plan, including resource requirements.
9. The Committee is designated as 'the Board' in the Council's Internal Audit Charter (revised March 2020). One of the Board's responsibilities is to make appropriate enquiries of management and the HoIAS to determine whether there are inappropriate scope or resource limitations.

Planning methodology

10. 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.

11. The Plan has been devised to ensure that it delivers against the PSIAS i.e. that the internal audit activity must: -
 - a. assess and make appropriate recommendations to improve the Council's governance processes (including ethical and information technology governance)
 - b. evaluate the effectiveness and contribute to the improvement of risk management processes; and,
 - c. assist the Council in maintaining effective internal controls by evaluating their effectiveness and efficiency and by promoting continuous improvement
12. 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'*.
13. Amongst a wide range of governance themed audits the HoIAS plans to undertake, some examples are the preparations for the implementation of social care reforms, whether there's risks that the Council might suffer financial or governance failings as has been seen at a number of Councils (i.e. 'Could it happen here?'), a review of what key assurances are received and how effective they are and other governance changes.
14. 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'*.
15. The PSIAS advise that when constructing the Plan, the HoIAS should consider 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 of counter fraud arrangements, fire safety risk, third party management of City data and the business continuity framework.
16. 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'*.
17. A wide range of audits is included after consulting Directors on where they require assurance that risks are being mitigated. Part of the Plan requires annual audits on key elements of the significant financial and IT systems. A significant part of the Plan is still required for grant certifications but approaches are under review, since it would be better utilised on higher risks.

18. 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).
19. The outcomes of audits, and the performance and relationship with the Committee are often used by the Council's External Auditors to assist their risk appraisal before auditing the financial statements and assessing the Council's value for money arrangements. In its 2020-21 Annual Audit Report published in December 2021, the external auditor was complimentary of the Internal Audit Service reporting, *'Internal Audit has demonstrated itself to be a dynamic service capable of reacting and responding to changing circumstances'*.

The Internal Audit Plan 2022-23

20. The attached Plan for 2022-23 (Appendix 1) 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 sorted in order of the three control environment categories (governance, risk management and internal control) but often there is overlap of the categories and 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.
21. 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.
22. 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. The Committee is authorised to seek any information it requires from any officer.

23. 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.
24. Some resources will be required for audits started in 2021-22 that will be finalised in 2022-23.
25. 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.
26. Whilst COVID-19 restrictions have been eased, and a form of 'new normal' is being established, the plan will need to remain fluid pending any further outbreaks that may result in restrictions being re-established. Also the Council is still developing its ways of working which may affect or re-direct the internal audit provision.
27. 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.
28. 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

29. 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.
30. 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.
31. The HoIAS & Audit Manager 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.

CIPFA research and report, 'Internal Audit: Untapped Potential'

32. At its meeting on 24th November 2021, the Committee was informed that CIPFA was undertaking a major research project looking at internal audit in the public services. It was keen to understand how internal audit is contributing most to their organisations and its future potential. The research was part of CIPFA's commitment to supporting the internal audit profession, good governance, and strong public financial management.
33. CIPFA conducted UK-wide research, sending an open survey to those in the public services, including those in the internal audit profession, management clients and audit committee members. The survey received a strong response with 831 submissions. The HoIAS, the Deputy Director of Finance and the Chair of the Audit & Risk Committee each responded to the survey. The Deputy Director also joined a 'focus group' session.
34. Following the research, on 23 May CIPFA released its report, 'Internal Audit: Untapped Potential' <https://www.cipfa.org/-/media/Files/CIPFA-Thinks/Insight/Internal-audit-untapped-potential.pdf>. The outcome of the research concluded that where internal audit is operating effectively, it is already providing support to organisations in a unique way by providing independent assurance, but there are pockets where internal audit is unable to do this. CIPFA's report has been promoted by several other UK accounting and internal auditing bodies. The full report spans 58 pages and is split into three main themes: -
 - a. How internal audit is making an impact
 - b. The potential for internal audit
 - c. What is holding internal audit back?
35. A summary report is attached as Appendix 2, and at Appendix 3 is a recent Public Finance article written by CIPFA's governance advisor and report author titled 'We need to talk about internal audit', which provides some suggestions on what exactly discussions should be about.
36. There is much to reflect on in the report especially around expectations (of clients, Audit Committees, and internal auditors), perceptions and understanding and promoting the breadth of the service. Over the summer, the HoIAS plans to go through the main report with the Deputy Director of Finance (and perhaps the other statutory officers) and the Chair of the Committee to discuss the findings and assess what improvement actions can be developed for the internal audit arrangements with Leicester City Council. An update will be reported to a future committee.

Resource Implications

37. The Council pays for LCCIAS to provide its internal audit activity. Provision in the last two years was affected by covid interruptions but also some vacancies and staff absences. Refunds were agreed with the Deputy Director of Finance. With an improved staffing resource the intention is to deliver at least 800 days if not more in 2022-23.

Equal Opportunities Implications

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

Legal Implications

39. 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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Appendices

Appendix 1	Internal Audit Annual Plan 2022-23
Appendix 2	Summary report - Internal audit untapped potential May22
Appendix 3	Public Finance article - We need to talk about internal audit

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