

**Leicester City Council Audit & Risk Committee**  
**28<sup>th</sup> September 2022**

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

**Progress against Internal Audit Plans 2021-22 and 2022-23**

**Purpose of Report**

1. The purpose of this report is to provide:
  - a. Summary of progress against the 2021-22 & 2022-23 Internal Audit Plans including:
    - i. summary information on progress with implementing high importance recommendations.
    - ii. summary of progress against the Internal Audit Plans
    - iii. commentary on the progress and resources used
    - iv. an update on progressing improvements to internal audit arrangements following a meeting regarding the CIPFA research report, 'Internal audit: untapped potential'.

**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 May 2022) 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.

6. 'Partial' ratings are normally given when the auditor has reported to management at least one high importance (HI) recommendation. A HI recommendation denotes that there is either an absence of control or evidence that a designated control is not being operated and as such the system is open to material risk exposure. It is particularly important therefore that management quickly addresses those recommendations denoted as HI and implements an agreed action plan without delay. HI's are reported to this Committee and a follow up audit occurs to confirm action has 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.
7. 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.
8. 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.
9. 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.

### **Progress with implementing high importance recommendations**

10. The Committee is tasked with monitoring the implementation of high importance (HI) recommendations which primarily lead to low assurance levels. **Appendix 1** 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 sufficient evidence or even specific re-testing by an auditor) that action has been implemented.
11. At the end of the year, as part of the process of determining his annual opinion, the HoIAS takes account of how management has responded to implementing high importance recommendations. Responses are generally positive and there is recognition that some recommendations do require more time to fully implement.

To summarise movements within Appendix 1 as at 5<sup>th</sup> September 2022

- a. New
  - i. Key ICT Controls 2020-21 (September 2022)
- b. Ongoing/extended (date initially reported & number of extensions granted)
  - i. Financial Management & School Governance - LA Scheme for the Financing of Schools (June 2020 – 7)
  - ii. GDPR #2 (June 2020 – 6)
  - iii. Smoking Cessation (July 2022 – 2)
- c. Closed
  - i. Contract Audit - Contract arrangements during the COVID 19 period
  - ii. Social Value within Procurement

**Summary of progress at 31<sup>st</sup> July 2022**

12. **Appendix 2** reports on the position at 31<sup>st</sup> July 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 31<sup>st</sup> May 2022) is:

	<b>2021-22 @31/05/22</b>	<b>2021-22 @31/07/22</b>	<b>2022/23 @31/05/22</b>	<b>2022/23 @31/07/22</b>
<b>Outcomes</b>				
High(er) Assurance levels	<b>12</b>	<b>16</b>	<b>0</b>	<b>0</b>
Low(er) Assurance levels	<b>4</b>	<b>5</b>	<b>0</b>	<b>0</b>
Advisory	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
Grants/other certifications	<b>22</b>	<b>22</b>	<b>3</b>	<b>13</b>
HI follow ups – completed	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
<b>Audits finalised</b>	<b>42</b>	<b>49</b>	<b>3</b>	<b>13</b>
HI follow ups – in progress	<b>5</b>	<b>5</b>	<b>0</b>	<b>0</b>
<b>In progress</b>	<b>14</b>	<b>8</b>	<b>23</b>	<b>41</b>
Not yet started	<b>0</b>	<b>0</b>	<b>32<sup>1</sup></b>	<b>30</b>
Postponed/Rescheduled/ Cancelled	<b>31</b>	<b>0</b>	<b>0</b>	<b>1</b>

<sup>1</sup> 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

## **Summary of resources used in 2022-23 (as at 31 July 2022)**

13. To close off 2021-22 audits, progress 2022-23 audits (reported in Appendix 2), and provide additional work relating to requirements such as planning, reporting to Committees etc, at 31 July 2022, Leicester City Council had received 303 days of internal audit input delivered (see below table).

	<b>@31/07/22</b>	<b>@ 31/07/2022</b>
<b>By type</b>	<b>Days</b>	<b>%</b>
Relating to prior years audits (*)	75	25
Relating to audits started 2022-23	195	64
<b>Sub-total audits</b>	<b>270</b>	<b>89</b>
Client management	33	11
<b>Total</b>	<b>303</b>	<b>100</b>
<b>By position</b>		
HolIAS	10	3
Audit Manager	32	11
Audit Senior (incl. ICT)	87	29
Auditor	174	57
<b>Total</b>	<b>303</b>	<b>100</b>

(\*) 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**

14. Leicestershire County Council Internal Audit Service's (LCCIAS) staffing situation continues to improve with a further Senior Auditor due to join the team in early October and a three month extension until the end of December to a Senior Auditor's agency contract has been made. Additionally, the team is due to start a trial of a guest data analytics placement student sponsored by De Montfort University. Using Data Analytics (DA) in audit work continues to be a key focus for Internal audit and this was used to good effect in a recent grant audit; further staff training will continue to ensure DA is used increasingly in other audits in the plan. These recent recruitments has helped develop experience and broaden the resource base within the team and naturally we are in better position than this time last year in terms of plan progress and days delivered 303 (July 2022) compared to 221 (August 2021). Nevertheless in some areas, audits have been slow to progress due to staff reorganisations/reviews that are taking place in the division; these have been brought to the attention client officers.

## **CIPFA research report 'Internal audit: untapped potential'**

15. At its meeting on 20<sup>th</sup> July 2022, the Committee was informed that CIPFA had undertaken a major research project around internal audit in the public sector and had produced a subsequent report 'Internal Audit: Untapped Potential'. The report was 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?

Members were informed that there was 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 planned to meet with the Deputy Director of Finance to go through the report and look at areas of potential improvement and an action plan would be brought back to a future Committee meeting.

16. The Deputy Director of Finance met with the HoIAS and the Audit Manager in the middle of August. The HoIAS had pre-prepared his thoughts responding to a supporting document 'Ten questions to ask your internal auditors'. These were suggested questions that senior management and audit committees should be asking to obtain the maximum impact from internal audit. Comparing views on these questions with the head of internal audit may also lead to some useful discussions. The ten questions are included at Appendix 3.

17. The discussion was very open, frank and forward looking as to where improvements could be made in arrangements. Some were more immediate e.g. changes to the order of this report to bring key findings forward, seeking the Chair's view on providing more background on a specific audit, providing training on the types of audit methodology, and agreements to more use of data analytics and to changes/improvements to assignment reporting and the annual planning process. Others will need further conversations with key officers e.g. improving engagement with the Chair and Chief Officers and exploring the context of the HoIAS as a trusted advisor and the Committee reviewing the effectiveness of internal audit. A focus on developing assurance mapping would go some way to satisfying Chief Officers, the Committee, and others that internal audit was providing assurance in the right areas.

18. A further update will be provided to a future committee.

**Financial Implications:**

19. None

**Legal Implications:**

20. None.

**Equal Opportunities Implications**

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

**Climate Emergency Implications:**

22. 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)?**

23.No.

**Is this a “key decision”? If so, why?**

24. 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 2021-22 and 2022-23

**Officer to Contact**

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**Appendices**

Appendix 1	High Importance Recommendations as at 5 <sup>th</sup> September 2022.
Appendix 2	Summary of Internal Audit Service work undertaken between 1 <sup>st</sup> April 2022 - 31 <sup>st</sup> July 2022.
Appendix 3	Internal audit: untapped potential - ‘Ten questions to ask your internal auditors’