

Leicester City Council Audit & Risk Committee
22nd November 2022

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

Progress against Internal Audit Plans 2021-22 & 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

Recommendation

2. That the contents of the routine update report be noted.

Background

3. The Council's internal audit function was delegated to Leicestershire County Council in 2017.
4. Within its Terms of Reference 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 4th November 2022.

- a. New
 - i. Direct Payments (November 2022)
 - ii. Rolleston Primary School (November 2022)
- b. Ongoing/extended (date initially reported & number of extensions granted)
 - i. GDPR #2 (June 2020 – 6)
 - ii. Key ICT Controls 2020-21 (December 2022)
- c. Closed
 - i. Financial Management & School Governance - LA Scheme for the Financing of Schools (June 2020 – 7)
 - ii. Smoking Cessation (July 2022 – 3)

Summary of progress at 30th September 2022

12. **Appendix 2** reports on the position at 30th September 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 July 2022) is:

| | 2021-22 @31/07/22 | 2021-22 @30/09/22 | 2022/23 @31/07/22 | 2022/23 @30/09/22 |
|-------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Outcomes | | | | |
| High(er) Assurance levels | 16 | 18 | 0 | 1 |
| Low(er) Assurance levels | 5 | 6 | 0 | 1 |
| Advisory | 2 | 2 | 0 | 0 |
| Grants/other certifications | 22 | 22 | 13 | 18 |
| HI follow ups – completed | 4 | 6 | 0 | 0 |
| Audits finalised | 49 | 54 | 13 | 20 |
| HI follow ups – in progress | 5 | 3 | 0 | 1 |
| In progress | 8 | 5 | 41 | 46 |
| Not yet started | 0 | 0 | 30¹ | 21 |
| Postponed/Rescheduled/ Cancelled | 0 | 0 | 1 | 1 |

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

Summary of resources used in 2022-23 (as at 30th September 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 30th September 2022; six months into the financial year Leicester City Council had received 444 days of internal audit input and so progress is on target to achieve the 800 days agreed in the delegation agreement (see below table).

| | @30/09/2022 | @ 30/09/2022 |
|------------------------------------|--------------------|---------------------|
| By type | Days | % |
| Relating to prior years audits (*) | 83 | 19 |
| Relating to audits started 2022-23 | 318 | 71 |
| Sub-total audits | 401 | 90 |
| Client management | 43 | 10 |
| Total | 444 | 100 |
| | | |
| By position | | |
| HolAS | 14 | 3 |
| Audit Manager | 50 | 11 |
| Audit Senior (incl. ICT) | 133 | 30 |
| Auditor | 247 | 56 |
| Total | 444 | 100 |

(*) 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. Progress against the plan continues, with most of the prior year audits being finalised. Audits completed over the last two months includes a number of grants, all of which were completed by the set deadlines. Occasionally some grant certifications requirements are identified late (which were not on the original IA plan), in these situations Internal Audit have ensured resources are dedicated to these audits to ensure that these grant certifications are completed by the due deadline.

15. Use of Data Analytics (DA) is a key focus and Auditors are encouraged to seek out opportunities to use DA in planned audits, particularly where large data sets are involved. DA was applied in the Test & Trace Support Grant audit where 100% of the transactions were analysed; this identified a number of potential duplicates which were subsequently followed up and were found to be satisfactory. Data Analytics is currently being used in the Council Tax Energy Rebate audit; this will be used to identify potential duplicates, payments made to ineligible households etc. DA will also be used in the Payroll audit that is due to start shortly.

These types of exercises do initially take extra time in completing the audits due to initially obtaining the data specifications required. Also there are delays in obtaining information from clients as specific types of system reports are required

to perform worthwhile tests. There is also an initial requirement to fully analyse the mitigating controls in place (predominantly data validation and error/exception reporting) in order to only test the right areas. This is a continuously maturing field of expertise and its acknowledged that it will take some time to become fully embedded as staff perfect their DA skills; nevertheless Internal Audit are looking to make more use of DA in future audits. Whilst the lead time is an initial outlay, it does enable a cost effective continuous auditing approach to be subsequently deployed.

It should also be noted that, where relevant, individual case studies are being developed detailing use and resultant benefit obtained from specific audits at other client sites; this will be shared with relevant staff with a view to further roll out of good practice use and maximise synergies from audits.

LCCIAS already works to a DA strategy but this is being revised and will be shared with the Director of Finance in order to provide authority and support to applying DA.

16. In some areas it's been difficult to progress audits, due to other work pressure and competing priorities; Client Officers have been kept informed of this.

Financial Implications:

17. None

Legal Implications:

18. None.

Equal Opportunities Implications

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

Climate Emergency Implications:

20. 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)?

21. No.

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

22. 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

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| Appendix 1 | High Importance Recommendations as at 4 th November 2022. |
| Appendix 2 | Summary of Internal Audit Service work undertaken between 1 st April 2022 – 30 th September 2022. |