

Leicester City Council Audit & Risk Committee
15th March 2023

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

Internal Audit Update

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
 - b. Progress with developing the Internal Audit Plan for 2023-24
 - c. Planning for an external assessment of Leicestershire County Council's Internal Audit Service

Recommendation

2. That the contents of the 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 15th February 2023.

- a. New
 - i. Construction Projects (CDM Compliance)
 - ii. Inglehurst Infant School
 - iii. Folville Junior School
 - iv. St John the Baptist Primary School
 - v. Bed & Breakfast Emergency Placement
 - vi. Emergency Repairs
- b. Ongoing/extended (date initially reported & number of extensions granted)
 - i. GDPR #2 (June 2020 – 7)
 - ii. Key ICT Controls 2020-21 (December 2022 - 1)
 - iii. Direct Payments (November 2022 - 1)
- c. Closed
 - i. Folville Junior School (March 2023)
 - ii. Rolleston Primary School (November 2022)

Summary of progress at 31st January 2023

12. **Appendix 2** reports on the position at 31st January 2023. The most recent status is shown in **bold font**. The summary position (with comparison to the previous position at 30th September 2022) is:

	Prior year @30/09/22	Prior year @31/01/23	2022/23 @30/09/22	2022/23 @30/01/23
Outcomes				
High(er) Assurance levels	6	6	1	12
Low(er) Assurance levels	2	3	1	6
Advisory	0	1	0	1
Grants/other certifications	0	0	18	21
HI follow ups – completed	6	6	0	2
Audits finalised	14	16	20	42
Audits in progress	5	2	46	35
HI follow ups – in progress	3	4	0	4
Not yet started	0	0	21 ¹	3
Postponed/Replaced /Cancelled	0	0	1	17

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 31st January 2023)

13. To close off prior year audits, progress 2022-23 audits (reported in Appendix 2), and provide additional work relating to requirements such as planning, reporting to Committees etc, at 31st January 2023; Leicester City Council had received 697 days of internal audit input and progress is on target to achieve the 800 days agreed in the delegation agreement (see below table).

	@31/01/2023	@ 31/01/2023
By type	Days	%
Relating to prior years audits (*)	93	13%
Relating to audits started 2022-23	532	77%
Sub-total audits	625	90%
Client management	72	10%
Total	697	100%
By position		
HolAS	23	3%
Audit Manager	104	15%
Audit Senior (incl. ICT)	281	40%
Auditor	289	42%
Total	697	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. The HolAS provides regular progress updates to the Director and Deputy Director of Finance. This becomes very important as the year end approaches to ensure there has been a sufficient and wide scope of audit coverage in order for the HolAS to reach his opinion on the control environment. The current position as at 31/1/2023 shows 37 audits (including prior year) that are 'work in progress', since then 5 more audits have been finalised and a further 13 that are at draft report (issued or awaiting to be issued stage); another 8 audits are progressing well and likely to be at draft stage by the year end, providing there are no delays experienced. Delays in obtaining information and client responses, has caused a number of audits to be delayed and in some cases postponed during the course of the year. Having a stable staff group this year has been beneficial to progressing against planned work and the HolAS is confident of meeting the days required and breadth of scope to enable an opinion to be reached. This has been shared with the External Auditor.

Progress with developing the Internal Audit Plan for 2023-24

15. By the time of this Committee meeting, the HoIAS and Audit Manager will have met with all Directors and their management teams to discuss their services' current and emerging risks and where they might benefit from receiving independent and objective assurance that those risks are being adequately managed. As with previous years this exercise has resulted in excellent engagement and a wide scope of audits is envisaged. Further detail on the process undertaken and the plan itself will be provided to the July Committee.

Planning for an external assessment of Leicestershire County Council's Internal Audit Service

16. Internal audit in the public sector is governed by the Public Sector Internal Audit Standards (PSIAS) which were updated in 2017. Conformance to the standards is mandatory for all principal local authorities. The PSIAS aim to promote continuous improvement in the professionalism, quality and effectiveness of the internal audit function. A key element of this is that as part of the internal audit quality management programme, each Internal Audit function should be subjected to an external quality assessment (EQA) of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation.
17. The previous EQA of Leicestershire Council's Internal Audit Service (LCCIAS) was undertaken in March 2018 by Veritau Limited, a large local authority shared internal audit service trading company. Veritau carried out an independent validation of the HoIAS' self-assessment and reached an overall conclusion that LCCIAS generally conformed (the top rating) to the PSIAS. The outcome was reported to the Audit & Risk Committee at its meeting on 13 June 2018.
18. Veritau does not have capacity to undertake a follow up EQA within the time requirements. The HoIAS will therefore research the market. There is a probability that the Chair of this Committee and the Director of Finance may be interviewed.
19. The HoIAS hopes to be able to present the outcome of the follow up EQA to the July meeting of the Committee.

Financial Implications:

20. None

Legal Implications:

21. None.

Equal Opportunities Implications

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

Climate Emergency Implications:

23. 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)?

24. No.

Is this a “key decision”? If so, why?

25. 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
Report to Audit & Risk Committee 13 June 2018 - Internal Audit Service – Peer Review Outcome

Officer to Contact

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Appendices

Appendix 1	High Importance Recommendations as at 15 th February 2023.
Appendix 2	Summary of Internal Audit Service work undertaken between 1 st April 2022 – 31 st January 2023.