

**Leicester City Council
Head of Internal Audit Service
Annual Report 2022-23**

**Neil Jones CPFA,
Head of Internal Audit & Assurance Service, Leicestershire
County Council**

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Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised from April 2017. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. The Mission of Internal Audit
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing
 - iv. Code of Ethics
 - v. International Standards for the Professional Practice of Internal Auditing
2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities must make provision for internal audit in accordance with the PSIAS.
3. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (for Leicester City Council this is the Governance & Audit Committee) timed to support the annual governance statement.
5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment (i.e. its framework of governance, risk management and internal control) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function against its performance measures and targets
 - d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment.
 - e. any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

The Annual Internal Audit Opinion on the Adequacy and Effectiveness of Leicester City Council's Control Environment

6. **Annex 1** provides detail on how the annual internal audit opinion was formed, explains the types of audits undertaken, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinions reached.
7. The opinion is based on an objective assessment of the results of individual audits undertaken, actions by management thereafter and the professional judgement of the HoIAS in evaluating other related activities including the Council's plans and responses received. For 2022-23, the HoIAS reviewed actions taken to promote good governance, mitigate risk and retain control throughout the continuing coronavirus. The following opinion has been reached:

HolIAS opinion: A return to more stable working environments following covid-19, along with a fully staffed Internal Audit Service throughout the year, resulted in increases to both the number of audits undertaken and days provided. There was a noticeable shift back to assurance based audits.

There was a reduction in the proportion of audits returning partial assurance ratings and management accepted and has responded to internal audit recommendations. Nothing else of significance has been brought to his attention so the HoIAS considers that during 2022-23, reasonable assurance can be given that the Council's control environment remained overall adequate and effective.

8. At the 30th June 2023, the outcomes of 6 audits hadn't been concluded with management. Whilst some recommendations have been (or will be) made, their outcomes will not affect the overall opinion given.

A summary of the audit work from which the opinion is derived

9. **Annex 2** lists the audits and other work undertaken by LCCIAS during the year and where appropriate contains the individual audit opinion.
10. 10 prior year audits were eventually concluded showing the effect of covid on both organisations and staffing stability had improved. Progressing the 2022-23 plan was considerably easier than previous years. Grant certifications used up less of a resource than previous years reflecting the tail off in covid grants, nevertheless the use of resource in this area remains a common issue across all local authorities.
11. Overall, for work completed at 30th June, 41 audits returned a 'substantial' assurance' rating, meaning the controls in place to reduce exposure to risks to achieving the system's objectives were well designed and were being operated effectively.
12. 7 new year audits resulted in partial assurance ratings. This was because either specific high importance (HI) recommendations (or a combination of

several important recommendations) were identified denoting there was either an absence of, or a weakness in control and achievement of the service's objectives was open to material risk exposure. HI recommendations/partial assurance ratings are reported in summary to the Governance & Audit Committee (the Committee) and they stay in the Committee's domain until the HoIAS has confirmed (by obtaining evidence or even specific re-testing) that action has been implemented. During 2022-23, of the 11 HI recommendations closed off after follow up, 6 related to prior year audits, however those relating to a further 4 prior year audits remain. The HoIAS remains satisfied that senior management and Members pay attention to the implementation of HI recommendations/partial assurance ratings. However, he will actively monitor and report slippage in implementation which might indicate increasing pressures and strains on the control environment.

13. Each of the five 'major financial systems' audits returned positive assurance ratings as did a number of other financial systems audits.
14. Conclusion of the regular key ICT controls work was delayed and remains in draft with a partial assurance rating.
15. There was an increase in maintained school audits being audited. Three prior year audits of school governance arrangements were concluded with substantial assurance.
16. Advice was given in a number of areas including on the revised Bus Lane Penalty Enforcement back office project and the Unit 4 Financial System development.
17. 24 grants and other claims and returns were reviewed and certified as accurate. This was a small decrease on the previous year.
18. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies. For 2022-23 the HoIAS took assurance externally from a Department for Transport (DfT) commissioned independent assurance review of the Transforming Cities Fund (TCF) and was provided meeting notes of a virtual discussion with National Audit Office auditors who were undertaking a Active Travel study on behalf of the DfT.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

19. The tables below show performance both in terms of number of audits and days allocated.

Table 1: Overall performance against 2022-23 internal audit plan

Position as at 30 June 2022	Total	Complete	Draft issued	In progress	Postpone or Cancel
Assurance audits	72	51	3	2	16
Consulting audits	7	6	-	1	0
Grants/other	32	24	-	0	8
Follow ups	17	11	-	6	0
Total	128	92	3	9	24
Prior year 30/4/22	80	62	5	13	16

20. The 2022-23 plan contained several potential areas for audit that for a variety of reasons didn't come to fruition. Some have been included in the 2023-24 plan.
21. For the period 1st April 2022 to 31st March 2023, 875 days were recorded (2021-22 same period was 641) which was sufficient coverage to be able to form an opinion. The significant increase in days on the previous year reflects a full staffing establishment and the reduced effects of covid on progressing work. The additional 234 days was utilised on auditing not client management.

Results were: -

Function	2021-22	2022-23	+/-
Audits (assurance, consulting, investigations)	542	782	+240
Client management – includes committees	99	93	-6
Total	641	875	+234

22. Almost 60% of the time was provided by senior/experienced staff: -

Position	Days	%	Days	%
HolAS & Audit Managers	158	25	172	20
Senior Auditors & ICT Auditor	166	26	340	39
Other	317	49	363	41
Total	641	100	875	100

23. Synergy was achieved i.e. where the same audit has been undertaken at the City and County Councils (especially grants).
24. LCCIAS regularly liaises with the Council's risk, counter fraud, procurement and information governance leads, shares consultation responses and governance and risk research and publications and feeds back information gathered from other local authorities to enable comparisons. Examples are shown at the end of annex 2.

25. 13 customer satisfaction questionnaires were returned and all were satisfied with the audit process.

A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

26. Leicestershire County Council Internal Audit Service is due its 5 yearly external quality assessment. In preparation for this the HoIAS undertook only a light touch self-assessment of LCCIAS's conformance to the PSIAS to confirm that the County Council's internal audit activity generally conforms with the International Standards for the Professional Practice of Internal Auditing. Notes supporting the self-assessment, and changes (in bold font), are reported in **Annex 3**. There were no significant deviations from the PSIAS.
27. The HoIAS also light touch reviewed the service's Quality Assurance and Improvement Programme (QAIP). Some action dates have had to be extended and are reported (in bold font) at the end of **Annex 4**.

Any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement (AGS)

28. For the year 2022-23, nothing has been brought to the HoIAS' attention that he considers relevant to the preparation of the AGS.

Neil Jones CPFA
Head of Internal Audit & Assurance Service
LCCIAS

6 July 2023.