

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of Leicester City Council's control environment
2022-23**

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Background

The Head of Internal Audit and Assurance Service, Leicestershire County Council undertakes the role and responsibilities of Leicester City Council's (the Council's) Head of Internal Audit Service (HoIAS). The HoIAS manages Leicestershire County Council's Internal Audit Service (LCCIAS). In April 2018, LCCIAS was independently externally assessed as generally conforming (the top rating) to the Public Sector Internal Audit Standards (the PSIAS). The PSIAS require the HoIAS to give an annual opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control). The PSIAS definition of the control environment is found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is **macro**-assurance over a defined period (financial year 2022-23) and is based upon a combination of:

- An objective assessment based on the results of individual audits undertaken and actions taken by management thereafter. Individual internal audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed are formed by applying systematic grading to remove any elements of subjectivity. **Annex 2** lists the audits and other work undertaken during the year and, where appropriate, the individual audit opinion. Individual audit engagements provide targeted **micro**-assurance.
- The HoIAS' role in preparing for, attending and reporting to the Audit & Risk Committee and his observations of other reports and engagement in specific training provided.
- The HoIAS' reflection on other sources of independent assurance received.
- The professional judgement of the HoIAS based on his knowledge, experience and evaluation of other related activities. This provides a holistic, strategic insight into the City Council's control environment.

The results of the above, when combined, form the basis for the HoIAS opinion on the overall adequacy of the Council's control environment (see definitions). However, the caveat at the end of the document explains what internal control cannot do, i.e. no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given its limited resource. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment based on the work undertaken and known facts.

Governance related internal audit work

Governance arrangements were reviewed in several audits some examples being Public Health Contract Monitoring, CCTV arrangements, contract arrangements for evaluations, waivers and exemptions and ward funding. Overall, recommendations were to improve governance i.e. not to have to establish it.

The HoIAS provided an update on progressing recommendations from CIPFA's report 'Internal Audit: Untapped Potential' and his discussions with the Deputy Director of Finance.

Throughout the year the HoIAS (and Audit Manager) attended the Audit & Risk Committee (the Committee) to present plans and reports on the internal audit activity, which enabled him to gauge Member level governance at first hand and observe the training delivered by officers to support their knowledge and role. The HoIAS and Audit Manager attended Management Teams to discuss the contents of internal audit plans.

The HoIAS received assurance internally from guidance briefings from the Chief Operating Officer on reminding staff on good governance and the Council's Local Code of Conduct, and the Monitoring Officer's reminder to Directors on political restrictions. In addition he received the introduction and slide deck to presentations available to all staff on Good Governance conducted by the Director of Delivery, Communications, and Political Governance and Monitoring Officer. The HoIAS shared with key officers a number of publications and guides on governance related themes. These are listed at the bottom of Annex 2. In order to gauge effective scrutiny, the HoIAS reviewed a number of Overview Select Committee webinars and associated certain reports including the Scrutiny Annual Report.

The HoIAS received 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. Unfortunately he couldn't place assurance on the External Auditor's Annual Report for 2021-22, including their work on VfM arrangements including 'Governance' since it hadn't been produced at the time of this opinion.

Risk management related internal audit work

A range of audits planned and conducted were 'risk based' i.e. ensuring that the Council's management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure. Specific audits of the Council's Counter Fraud Strategy, Business Continuity and Emergency Planning arrangements were undertaken. The HoIAS received further assurance internally from reviewing the arrangements to revise the identification, reviewing reporting of strategic risks.

Financial (and ICT) Controls related internal audit work

A considerable number of audits were undertaken on areas of key financial systems for example council tax rebates, payroll and bank and key control account reconciliations. A significant amount of internal audit time was focussed on certifying grant claims. All grants (and other returns) audited met their conditions to be certified.

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.

Definitions

The revised 2017 Public Sector Internal Audit Standards (the PSIAS) define the following: -

Assurance audit

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Consulting audit

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

Control

Actions taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. It includes the following:

- Integrity and ethical values
- Management's philosophy and operating style
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The IIA defines the control environment as the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets

Caveat

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.