

Leicester City Council Governance & Audit Committee
13th March 2024

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

Progress against Internal Audit Plans and an external quality
assessment of Leicestershire County Council's Internal Audit Service

Purpose of Report

1. The purpose of this report is to provide:

Summary of progress against the 2023-24 and prior year 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. brief details on an independent external quality 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 Governance & Audit 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.
10. Also within its Terms of Reference, the Committee has a duty to contribute to and support an external quality assessment of the internal audit function which is a requirement of the Public Sector Internal Audit Standards (PSIAS) to take place at least once every five years.

Progress with implementing high importance recommendations

11. 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.
12. 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 however there is recognition that some recommendations do require more time to fully implement.

To summarise movements within Appendix 1 as at 27th February 2024.

- a. New
 - i. Spinney Hill Primary School
 - ii. Herrick Primary School
- b. Ongoing/extended (date initially reported & number of extensions granted)
 - i. Key ICT Controls 2020-21 (September 2022 - 4)
 - ii. Direct Payments (November 2022 - 3)
 - iii. CCTV (July 2023 – 2)
- c. Closed (date initially reported to Committee)
 - i. None this cycle

Summary of progress 31st January 2024

13. **Appendix 2** reports on the position at 31st January 2024. The table shows the status on prior year and 2023-24 audits between the period 1st April 2023 to 31st January 2024:

	Prior year @ 31/01/2024	2023-24 @ 31/01/2024
Outcomes		
High(er) Assurance levels	9	11
Low(er) Assurance levels	1	2
Advisory	3	5
Grants/other certifications	0	14
HI follow ups – completed	3	0
Audits finalised	16	32
Audits in progress	2	38
HI follow ups – in progress	3	2
Not yet started	0	2
Deferred /Cancelled	0	8

Summary of resources used in 2023-24 (as at 31st January 2024)

14. To close off prior year audits, progress 2023-24 audits (reported in Appendix 2), and provide additional work relating to requirements such as planning, reporting to Committees etc, at 31st January 2024; Leicester City Council had received 717 days of internal audit input (see below table).

	@31/01/2024	@ 31/01/2024
By type	Days	%
Relating to prior years audits (*)	94	13
Relating to audits started 2023-24	549	77
Sub-total audits	643	90
Client management	74	10
Total	717	100
By position		
HolAS	22	3
Audit Manager	126	18
Audit Senior (incl. ICT)	297	41
Auditor	272	38
Total	717	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

15. Good progress is being made in the delivery of the audit plan, although a number of delays have been encountered. The Head of Finance has helped progress audits, but some have been more difficult; however, it is recognised and acknowledged that Directors and operational staff at the Council are under significant pressures due to competing demands and in some cases staff shortages, which can give rise to delays. It should be noted that auditors have continued to deliver audits, whilst being sensitive to the difficulties experienced by staff in certain divisions of the Council. Naturally this places pressure on audit staff in completing audits, with a number of stop-starts and delays to audits; however, the team has continued to deliver the audit service diligently and professionally, with the aim of delivering at least 800 days as per the delegation agreement. Internal Audit will continue to work with the Head of Finance to help progress audits to ensure there is sufficient audit coverage to allow the Head of Internal Audit Service to provide his opinion on the overall adequacy and effectiveness of the control environment at the year end. A further progress meeting will be held with the Head of Finance before the Easter break. This will be an important meeting to determine whether audits can be completed or need to be postponed into the next financial year.

External Quality Assessment

16. A requirement of the PSIAS is that an assessment of the internal audit function's overall conformance with the Standards is conducted once every five years by a qualified, independent assessor, or assessment team from outside the organisation. The previous External Quality Assessment (EQA) of Leicestershire County Council's Internal Audit Service was undertaken in March 2018 and was an independent validation of the HoIAS' self-assessment. The results were reported to the Audit & Risk Committee at its meeting on 13 June 2018 with the overall conclusion that the Service generally conformed (the top rating) to the PSIAS.
17. In October 2023, the County Council commissioned Robin Pritchard, a very experienced internal audit and risk professional, to undertake an EQA by March 2024. It was agreed that an assessment would be based upon a review (validation) of an evidenced internal self-assessment exercise. This was the same methodology applied in 2018. The EQA will be undertaken remotely and will be conducted in two stages with a readiness check towards the end of January (with an opportunity to make any improvements) before a final and full report in March/April (to be reported to the Governance and Audit Committee at its meeting in July 2024). As well as submission of evidence, the assessor will conduct interviews which may include the Chair of the Committee and a selection of City Council Officers or alternatively use a digital survey questionnaire to gain insight into the value and performance of the internal audit service.
18. Work is underway to provide the assessor with documentation for review.

Financial Implications:

19. There are no direct financial implications arising from this report. However, as a result of the work carried out, assurance regarding the operation of key financial systems is gained and there would be an expectation that implementing internal audit recommendations could improve effectiveness, efficiency and economy.
20. Leicester City Council will not incur any charge for the independent external quality assessment of Leicestershire County Council's Internal Audit Service.

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 2022-23 & 2023-24

Officer to Contact

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Appendix 1	High Importance Recommendations as at 27 th February 2024.
Appendix 2	Summary of Internal Audit Service work undertaken between 1 st April 2023 - 31 st January 2024.