

Leicester City Council Governance & Audit Committee
10th July 2024

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

Progress against Internal Audit Plans, the outcome of an external
quality assessment of Leicestershire County Council's Internal Audit
Service and the Internal Audit Annual Report 2023-24

Purpose of Report

1. The purpose of this report is to provide:
 - a. **Part 1:** 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, includes work undertaken in 2024-25.
 - iii. commentary on the progress and resources used.
 - iv. outcome of the independent external quality assessment of Leicestershire County Council's Internal Audit Service.
 - b. **Part 2:** An annual report on internal audit work conducted during 2023-24 containing information on the internal audit function's conformance to professional standards, which provides an insight into its effectiveness.

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. The Committee also has a duty to review and approve the Head of Internal Audit Service's annual report containing an opinion on the overall adequacy and effectiveness of the Council's control environment, and conformance to the Public Sector Internal Audit Standards (the PSIAS)
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 14th June 2024.

a. New

- i. Contract Monitoring
- ii. Fleet Services Invoice Payments
- iii. Catherine Infant School
- iv. Dovelands Primary School

b. Ongoing/extended (date initially reported & number of extensions granted)

- i. Key ICT Controls 2020-21 (September 2022 - 5)
- ii. Direct Payments (November 2022 - 3)
- iii. Herrick Primary School (March 24 – 1)

c. Closed (date initially reported to Committee)

- i. CCTV (July 2023 – 2)
- ii. Catherine Infant School (July 2024)
- iii. Spinney Hill Primary School (March 24 – 1)

Part 1:
Summary of progress 31st May 2024

13. **Appendix 2** reports on the position at 31st May 2024. The most recent status is shown in **bold font**. The summary position (with comparison to the previous position at 31st January 2024) is:

	2023-24 (& prior year) @ 31/01/2024	2023-24 (& prior year) @ 31/05/2024
Outcomes		
High(er) Assurance levels	14	25
Low(er) Assurance levels	2	6
Advisory	6	7
Grants/other certifications	14	17
HI follow ups – completed	3	6
Audits finalised	39	61
Audits in progress	40	14
HI follow ups – in progress	5	6
Not yet started	2	0
Deferred /Cancelled	8	19
2024-25 Audits in progress		7

Summary of resources used in 2023-24 (as of 31st March 24)

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 March 2024; Leicester City Council had received 869 days of internal audit input (see below table).

	@31/03/2024	@ 31/03/2024
By type	Days	%
Relating to prior years audits (*)	108	12%
Relating to audits started 2023-24	673	78%
Sub-total audits	781	90%
Client management	88	10%
Total	869	100%
By position		
HolAS	30	3%
Audit Manager	158	18%
Audit Senior (incl. ICT)	352	41%
Auditor	329	38%
Total	869	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. There has been a stable audit team throughout the year which has ensured good progression of planned and other commissioned audits. The major cyber incident in early March resulted in the City Council having to shut down some systems whilst the cyber incident was investigated. During this period Internal Audit continued to complete audit work whilst being sensitive to the issues being encountered; however, this incident resulted in delays to the progression of some audits. The position was closely monitored by the Head of Internal Audit Service (HoIAS) and the Head of Finance to ensure audits progressed and there continued to be adequate coverage of audits to allow the HoIAS to form his end of year opinion on the Council's control environment. The Head of Finance has continued to assist where delays have been encountered in audits. An important scheduled audit of key ICT controls (including a follow up on the cyber security audit undertaken in 2022-23), was not able to be undertaken due to the cyber incident; therefore, Internal Audit assurance could not be given that there was not material risk exposure. Independent assurance will need to be gained once the incident is concluded.

The Council has received 869 days of audit input, which exceeds the delegation target of 800 days. Of the 869 days, over 60% of this input was from senior members of audit team.

Good progress is being made to close off any remaining prior year audits; in addition, Internal Audit are working on other audits agreed by the Head of Finance, some of these include audits deferred from prior year, schools' audits and grant certification which have set deadlines. Auditors are continuing to follow-up High Importance recommendations; management have responded positively to audit recommendations including follow-ups, which has resulted in three follow-up audits being closed during this period.

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.

17. At its meeting on 13 March 2024, the Committee was informed that LCCIAS had commissioned Robin Pritchard, a very experienced internal audit and risk professional, to undertake an EQA by March 2024. The assessment would be based upon a review (validation) of an evidenced internal self-assessment exercise was to be undertaken remotely and conducted in two stages with a readiness check towards the end of January before a final and full report in March/April (to be reported to the Governance and Audit Committee at its meeting in July 2024).

18. The assessor produced their final report in early May. It states: -

The Leicestershire County Council internal audit service is delivering to a standard that generally conforms (*) with the Public Sector Internal Audit Standards

(*) 'Generally Conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. The assessor considered LCCIAS compared very favourably in benchmarking against other Local Authorities. Six areas of good practice were reported and (as was expected) four areas for further improvement. An action plan is being developed.

19. The full EQA report can be found at: -

<https://democracy.leics.gov.uk/documents/s182668/Appendix%203%20-%20Final%20report%20-%20External%20Quality%20Assessment.pdf>

Part 2

Internal Audit Annual Report 2023-24

20. The HoIAS' annual report must include:

- a) An annual internal audit opinion on the overall adequacy and effectiveness of the Council's control environment
- b) A summary of the audit work from which the opinion is derived.
- c) A comparison of the work actually undertaken with the work that was planned to include a summary of the performance of the internal audit function.
- d) A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)
- e) any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

21. The annual report for 2023-24 is provided at **Appendix 3**. The report includes the HoIAS' opinion.

HoIAS opinion: A stable staff group throughout the year allowed for a good progression of planned audits. Forty-five assurance audits were undertaken, the majority of which returned substantial assurance rating. Nine audits either contained high importance (HI) recommendations or were otherwise given a partial assurance rating and were reported in summary to Committee during the year. Seven consulting engagements were undertaken. Seventeen grants were certified. Management accepted and responded positively to recommendations including follow ups.

The HoIAS took independent assurance from External Audit reports and the Leicester Safeguarding Children Partnership Board Annual Report and reviewed other Committee reports.

The major cyber incident in early March created short delays to progressing a few audits. However, an important scheduled audit of key ICT controls (including a follow up on the cyber security audit undertaken in 2022-23), was not able to be undertaken due to the cyber incident. Therefore, Internal Audit assurance could not be given that there was not material risk exposure. Independent assurance will need to be gained once the incident is concluded.

Notwithstanding being unable to provide assurance on key ICT controls, reasonable assurance is given that the Council's control environment has remained overall adequate and effective.

The HoIAS' opinion is also contained in the Council's draft AGS.

22. **Annex 1** provides detail on how the annual internal audit opinion was formed, defines the types of audits, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinion reached.

23. **Annex 2** lists the audits undertaken during the year. For assurance audits the individual audit opinion is given.

24. Headlines from the report are: -

- a. The HoIAS opinion on the overall adequacy and effectiveness of the control environment remained positive.
- b. The vast majority of assurance audits conducted (almost 80%) returned substantial assurance ratings. Those where less assurance was given will continue to be subject to further internal audit scrutiny.
- c. There was good progress in closing off legacy high importance recommendations.
- d. Due to reporting a month earlier, there was a small drop in the total number of audits undertaken and completed but year on year comparison shows that days provided was constant and was utilised on audits (90% of time) not client management (10%).
- e. Audits of grants remains a drain on resource although less than in recent years.
- f. There's a very small carry over of work.
- g. Year on year comparison shows that days provided considerably exceeded those from the previous year(s) and the increase was utilised on audits not client management.
- h. Customer satisfaction returns decreased but remained positive on the whole.
- i. Development and training continued.

- j. An independent External Quality Assessment judged the Service generally conforms to PSIAS (the top rating). The assessor reported good practice but there are some improvement areas to consider for conformance to PSIAS and the QAIP.
- k. The Internal Audit Service was reported positively in the (External) Auditor's Annual Report.
- l. The HoIAS considers that the major cyber security incident that occurred in early March should be reported in the AGS along with any action taken and planned.

Financial Implications:

- 25. 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.
- 26. Leicester City Council has not incurred any charge for the independent external quality assessment of Leicestershire County Council's Internal Audit Service.

Legal Implications:

- 27. None.

Equal Opportunities Implications

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

Climate Emergency Implications:

- 29. 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)?

- 30. No.

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

- 31. 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
Report to Governance & Audit Committee 13 March 2024 - Progress against
Internal Audit Plans and an external quality assessment of Leicestershire
County Council's Internal Audit Service

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Appendix 1	High Importance Recommendations as at 14 th June 2024.
Appendix 2	Summary of Internal Audit Service work undertaken between 1 st April 2023 - 31 st May 2024.
Appendix 3	The Head of Internal Audit Service Annual Report 2023-24
Annex 1	The Head of Internal Audit Service Annual Opinion on the overall adequacy and effectiveness of the control environment 2023-24
Annex 2	Work supporting the HoIAS Annual Opinion 2023-24