

**Leicester City Council Audit & Risk Committee**  
**17 June 2020**

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

**Internal Audit Service – Annual Plan 2020-21**

**Purpose**

1. To provide the Audit & Risk Committee (the Committee) with an indication of internal audit work originally planned to be conducted during 2020-21.
2. To explain how the impact of the coronavirus will affect delivery of the original plan and what changes might be required.

**Recommendations**

3. The Audit & Risk Committee is recommended to:
  - a. Receive the plan, note its contents and seek clarification on any areas as they wish and then approve the plan.
  - b. Make any recommendations or comments it sees fit either to the HoIAS or Director of Finance

**Background**

4. Under the Accounts and Audit Regulations (2015), Leicester City Council (the Council) is required to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes.
5. In January 2017, the City Mayor agreed to delegate the Council's internal audit function to Leicestershire County Council. The delegation was formally completed on 23 November 2017 and the management arrangements were transferred.
6. Leicestershire County Council Internal Audit Service (LCCIAS) conforms to all relevant standards and legislation, particularly the Public Sector Internal Audit Standards (PSIAS).

7. Standards require the Head of Internal Audit Service (HoIAS) to form an annual opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control). To form an opinion, the scope of internal audit work needs to be wide. The HoIAS prepares a risk based internal audit plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.
8. Within its Terms of Reference, the Committee has a duty to consider, challenge and approve (but not direct) Internal Audit's strategy and plan and monitor performance on an annual basis. The Committee is designated as 'the Board' in the Council's Internal Audit Charter (revised March 2020).

### **Planning methodology**

9. The provision of a risk based internal audit plan (the Plan) consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's governance framework, risk exposure and internal controls. To develop the scope of audit coverage, the HoIAS has researched and evaluated where risk might occur to the Council using methods including: -
  - a. Consulting on emerging risks, planned changes and potential issues with the statutory and other senior officers.
  - b. Evaluation of wider governance arrangements e.g. the most up to date risk registers, plans and committee reports
  - c. 'Horizon scanning' new and emerging risks from professional and industry sources
  - d. Comparisons against similar councils' audit plans
  - e. Discussion with the External Auditor.
10. The Plan was originally devised to ensure that it delivered against the PSIAS i.e. that the internal audit activity must: -
  - a. assess and make appropriate recommendations to improve the Council's governance processes (including ethical and information technology governance).
  - b. evaluate the effectiveness and contribute to the improvement of risk management processes; and,
  - c. assist the Council in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement
11. Governance is defined in PSIAS as, '*The combination of processes and structures implemented to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives*'.
12. Amongst a wide range of governance themed audits, the HoIAS planned to undertake further themed audits of the governance of maintained schools; climate change; digital transformation; clinical

governance and IT governance, sports partnerships and Leicester & Leicestershire Enterprise Partnership

13. Risk management is defined in PSIAS as, *'A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives'*.
14. The PSIAS advise that when constructing the Plan, the HoIAS should consider the risk management framework, including using risk appetite levels set by management for the different activities or parts of the organisation. The Council's Corporate Management Team has responsibility for identifying and managing risk and, the design, implementation and operation of robust internal control systems. The HoIAS planned to undertake risk management themed audits in the areas of Brexit impact and that a selected service is consistently applying the Council's risk management procedures.
15. Internal Control is defined in PSIAS as, *'The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept'*.
16. Part of the Plan requires annual audits on key elements of the significant financial and IT systems. These audits are often used by the Council's External Auditors to assist their risk appraisal before auditing the financial statements. Other planned audits included Concessionary Travel income, sports services, direct payments and early years payments A wide range of grant certifications fall in this category.
17. A contingency of days was retained for special projects and investigations and an allocation was reserved for the HoIAS' client management and professional responsibilities (attendance at committees, form opinions and reports etc).

### **The Internal Audit Plan 2020-21**

18. The attached Plan for 2020-21 (Appendix) contained a wide scope of audits that would have allowed the HoIAS to form an opinion on the overall adequacy and effectiveness of the Council's control environment. It was mostly based on assurances required by Leicester City Council Directors and their management teams. It was comparable to the risks affecting other local authorities and contained risks highlighted by internal audit and risk management professionals. The HoIAS intends to provide a minimum of 800 days internal audit service.
19. Most of the planned audits were an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on what assurance can be given that risk is being

sufficiently mitigated. There are usually four levels of assurance: full; substantial; partial; and little. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation. These recommendations are reported in summary to this Committee and will stay within its domain until the HoIAS is satisfied that action has been implemented (usually after a follow up audit has been conducted). 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.

20. When it receives updates on completed audits, the Committee has a duty to review and challenge management's responsiveness to the internal audit findings and recommendations, seeking assurance that appropriate action has been taken where necessary and agreed recommendations have been implemented within a reasonable timescale.
21. LCCIAS also undertakes 'consulting' (advisory type audits). Examples include commentary on the effectiveness of management's intended control design and framework and potential implications of changes to/implementations of new systems, processes and policies.
22. Some resources were required for audits started in 2019-20 that would be finalised in 2020-21.

### **The impact of the coronavirus on undertaking the internal audit plan**

23. At the time it was devised at the end of February 2020, the 2020-21 plan aimed to give the optimum audit coverage within the resources available. During February and into March and beyond, it was very quickly evident that the coronavirus was significantly impacting all City Council operational and corporate services. Some services closed whilst alternative delivery and even new services came to the fore.
24. The world has changed and continues to do so and with that change there are new risks emerging, some that have previously been low are escalating whilst others diminish if services aren't being provided. There is no doubt that as stability returns and managers begin to plan for both interim and long-term recovery to 'new normal' services, the new risk profile of the Council will need to be considered.
25. Some 2020-21 planned audits have already started, and others relate to audits of large-scale projects that will continue. Nevertheless, some audits will now be of less importance. Hence the HoIAS has already begun to review the original plan and RAG rate the audits that were proposed. He will then contact senior management (including the Director of Finance) to gain their views and discuss where amendments to the plan are required.

26. The HoIAS will discuss with the Director of Finance, that until there is more certainty, a short-term plan is agreed perhaps covering six months with a review after three months. This is common across other Councils and their internal audit functions. The HoIAS is constantly monitoring how his peers and the internal audit professions are approaching planning for the remainder of this year.
27. There will also need to be changes to methodology such as remote auditing as default utilising technology, 'flash' reporting (identifying real problems immediately and dealing with them later), more scope to utilising data analytics and remote meetings
28. The HoIAS will discuss and agree any material changes to the original plan with the Director of Finance and members of the Corporate Management Team and these will be reported to the Committee.

### **Progressing the Audit Plan**

29. Responsibility for the evaluation and management of risk and the design and consistent operation of internal controls rests with the Council's management. LCCIAS' role and responsibility is to carry out independent and objective audits and give an opinion on the extent to which risk is being managed and (where appropriate) make recommendations to improve controls.
30. At an agreed appropriate stage of each audit, findings will be discussed with the appropriate risk owner before issuing a draft report. Final reports will be sent to Directors.
31. The HoIAS/Principal Auditor will meet (virtually until otherwise) regularly with the relevant officers to discuss progress and any issues arising. A progress report containing audits completed and summaries of any 'high importance' recommendations will be brought periodically to the Committee.

### **Resource Implications**

32. The Council pays for LCCIAS to provide its internal audit activity

### **Equal Opportunities Implications**

33. There are **no specific** equal opportunities implications contained within the annual summary of work undertaken.

### **Legal Implications**

34. There are no direct additional legal implications arising from this report. These implications will rest within (and be reported by) the business areas that have day-to-day responsibility for managing their risk.

## **Background Papers**

The Constitution of Leicester City Council  
Accounts and Audit Regulations (Amendment) 2015  
The Public Sector Internal Audit Standards (revised from April 2017)  
Leicester City Council Internal Audit Charter (March 2020)

## **Circulation under Sensitive Issues Procedure**

None

## **Officer to Contact**

Neil Jones  
Head of Internal Audit & Assurance Service  
Leicestershire County Council  
Tel: 0116 305 7629  
Email: [neil.jones@leics.gov.uk](mailto:neil.jones@leics.gov.uk)

## **Appendix**

Internal Audit Service - Annual Plan 2020-21