

Leicestershire County Council Internal Audit Service Annual Report 2023-24

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Leicestershire County Council**

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LEICESTERSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2023-24

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' (Corporate Governance 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 governance, risk and internal control frameworks (i.e., the control environment) 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 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 Leicestershire County 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. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, the professional judgement of the HoIAS in evaluating other related activities and recognising other independent assurances received in the year, the following overall opinion has been reached: -

LCCIAS' staffing resource was at its strongest for several years, and overall non-productive time (including sickness) was lower. The HoIAS considers there was sufficient input across the control environment to be able to give a full opinion. Assurance was supplemented by good relationships with senior management and transparency over reporting significant governance issues in the provisional draft Annual Governance Statement and providing detailed updates to risk positions in the Corporate Risk Register. Ten audits (eight of which related to maintained primary schools potentially incurring deficit budget positions) either contained high importance (HI) recommendations or a partial assurance rating and were reported in summary to Committee during the year. There was an increase in the number of reactive investigations which LCCIAS either supported/advised on or led (doubled from 13 to 26). However, as was the case with HI recommendations/partial assurance ratings, management accepted and responded to recommendations following investigations. The position with Nottingham City Internal Audit proposing to significantly reduce its internal audit coverage of EMSS main financial systems is a concern and will need to be closely monitored.

Reasonable assurance is given that the Council's control environment has remained overall adequate and effective.

8. At the time of writing this report, the outcomes of 19 audits hadn't been concluded with management. Whilst this is higher than 2022-23 (9), the 'cut off' for producing this report was much later and it's likely that a number have moved on. It is unlikely there will be any change to the overall opinion.

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

9. **Annex 2** lists the audits and all other work undertaken by LCCIAS during the year and where appropriate contains the individual audit opinion.
10. A increased number 56 (33) of the audits undertaken were 'assurance' type defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. Most will likely return 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. Ten audits contained a high importance (HI) recommendation signifying a particularly serious control weakness had been identified and two of those were graded 'partial assurance' rating. Until a report has been issued in draft and there's some certainty that the grading will not change, some audits are currently showing as to be confirmed 'TBC'.

11. There was a return to virtually auditing some maintained schools
12. LCCIS provided consulting/advisory across a range of topics. Additionally, the Service reviewed a higher number of Information Security Risk Assessments 39 (25) and other IT changes which demonstrates the continuing pace of change the Council is driving.
13. The number of grants audited and certified reduced slightly to 12 (19). These continue to take a lot of internal audit resource.
14. LCCIAS completed its input to 14 (11) investigations (not necessarily fraud/theft). This was a decrease from the previous year. A number of investigations are still in train since outcomes are only reported to the Committee once they are concluded so as not to jeopardise any formal (disciplinary or Police) investigations. Activity on investigations is produced annually to meet the requirements of the Local Government Transparency Code.
15. The HoIAS is also responsible for the compilation of the Council's Annual Governance Statement (AGS) and retains oversight of the counter fraud, risk management and insurance functions and chairs a group specifically engaged in the Council's property and occupants risk. Managing these functions gives the HoIAS wider insight into forming an opinion on the adequacy and effectiveness of the control environment
16. A 'potential impairment' to LCCIAS' independence and objectivity (responsibility for the corporate risk management framework) is declared in the Internal Audit Charter which was revised in January 2024.
17. On the whole, staff continued to work remotely and have adapted their working arrangements. Some have adopted a hybrid approach, with attendance at Committees, working groups and team briefings. Training and development continued (all remotely).
18. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies.
 - a. Nottingham City Council Internal Audit (NCCIA) provides the internal audit function for East Midlands Shared Services (EMSS). During the year NCCIA was scheduled to conduct audits of payroll, accounts receivable, accounts payable, and IT – System Admin and access controls. At the time of writing this report, the Head of Internal Audit for NCCIA had not concluded his annual opinion for 2023-24 and it will have to be reported to the Committee later in the year.

- b. Additionally, the HoIAS took assurance from the External Auditor's Annual Report on the County Council for 2022-23 and the Ofsted Focused visit to Leicestershire children's services – May 2023.
- c. More detailed information on the above is contained in Annex 1 – HoIAS Annual Opinion 2023-24

Work undertaken including a summary of the performance of the internal audit function.

19. The tables below show assignments completed/ongoing.

Table 1: Assignments completed/ongoing on 3 May 2024

	2022-23	2022-23	+/-	Complete	C/fwd
Assurance audits	33	56	+23	37	19
Follow up/close off HI recommendations.	11	9	-2	9	-
Consulting assignments	8	13	+5	6	7
Information Security Risk Assessments	25	39	+14	37	2
Grant certification	19	12	-7	12	-
Investigations – concluded.	11	14	+3	14	-
Other control environment	15	23	+8	12	11
Assist other functions.	5	4	-1	2	2
Total	127	170	+43	129	41

20. Internal audit plans are increasingly short-term statements of intent rather than guaranteed coverage and need to be flexible and retain contingency to adapt to changes in risk and priorities. Some resource has already been utilised in 2024 completing prior year audits.
21. Budget allowed us to retain 1x agency at Senior Auditor level, but unfortunately 1x Senior Auditor departed in early February leaving a gap.
22. There was a large budget underspend mainly due to the start of year budget not reflecting a previous inflation increase, some staffing savings but also increased trading income.
23. There were no long-term absences, and total sickness absence was just over 21 days for a staff group comprising 14 fte for most of the year. This was almost 50 days less than the previous year. Around 4 weeks each was lost to attending jury service and non-routine medical appointments.
24. Returns of customer satisfaction questionnaires remain low. Nevertheless, those being audited continue to rate service received and value added as

'very satisfied'. As part of the recent External Quality Assessment, questionnaire responses from senior management and members were positive (96%) and 75% had been returned (above average). The Assessor reported, *'The Internal Audit service receives favourable feedback from clients who are appreciative of the approachable, flexible and client focused support that is provided'*.

25. The drive to becoming more agile by using available technologies and pushing ahead on the use of a data analytics tools remains work in progress. A data analytics strategy has been devised.

Conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

26. The outcome of the External Quality Assessment (2024) was *'The Leicestershire County Council internal audit service is delivering to a standard that generally conforms with the Public Sector Internal Audit Standards'*.
27. The Assessor made two recommendations relating to the QAIP which were graded, *'The Internal audit service should review its approach in this area to better reflect the application of the PSIAS'*. This will form part of the overall action plan.

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

28. The HoIAS has responsibility for overseeing the compilation of the AGS. As part of the process, a 'governance group' comprising the Director of Law & Governance, the Chief Financial Officer, the Head of Democratic Services and the Assistant Chief Executive and the HoIAS reviews and agree any significant governance issues that should be reported in the AGS.
29. Three new significant governance issues will be reported in the provisional draft AGS.

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LCCIAS

8 May 2024.