The Head of Internal Audit Service's Annual Opinion on the overall adequacy and effectiveness of the control environment 2023-24

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Background

The Head of Internal Audit and Assurance Service, Corporate Resources Department undertakes the role and responsibilities of the County Council's Head of Internal Audit Service (HoIAS). The HoIAS manages Leicestershire County Council's Internal Audit Service (LCCIAS). LCCIAS has been externally assessed as generally conforming to the Public Sector Internal Audit Standards (the PSIAS) revised from April 2017. 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 opinion is **macro**-assurance over a defined period (2023-24) and combines:

- 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. Draft reports are taken account of. **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.

- Professional judgement of the HoIAS based on his knowledge, experience, and evaluation of other related activities. This provides a holistic, strategic insight into the County Council's control environment.

- The HoIAS' recognition of some other independent assurances received in the year. These are found on page 5

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.

A wide range of assurance and consulting audits (see definitions at the end of this document) were undertaken. Overall, recommendations were to improve governance i.e., not to have to establish it.

The HoIAS attended the Corporate Governance Committee (the Committee) to present plans and reports on the internal audit activity, and other reports (in his wider role) on risk management (including property & occupants' risk, counter fraud, and insurance) and the Annual Governance Statement. Overseeing these other functions enabled him to gauge Director and Member level governance at first hand. The HoIAS reviewed other reports presented to the Committee and monitored Members' engagement as part of his holistic governance assessment.

The HoIAS conducted member training on the revised CIPFA Audit Committee Guidance, observed member training on treasury management, led on arrangements for Committee members to self-assess good practice against the revised guidance and provided input to the inaugural Annual Report of the Committee to full Council and the report on the governance arrangements for external bodies for which the County Council has a key role.

The HoIAS is part of a senior officer group that reviews the provisional draft Annual Governance Statement (AGS).

The HoIAS had regular discussions with the Chief Executive, Directors and particularly the CFO and the MO on governance issues and related internal audit aspects. The HoIAS attends Corporate Management Team when required.

The HoIAS reviewed annual performance reports including the County Council's overall performance and expenditure benchmarking position and progress and the individual reports on performance and progress to each of the Council's Overview and Scrutiny Committees in March 2024. He also took assurances from reviewing the Director of Public Health Annual Report,

The HoIAS was interviewed at length for his views on governance, risk, and counter fraud as part of the external auditor's revised approach to value for money work.

The HoIAS also reported to the Local Pension Board and ESPO Committees.

Risk management related internal audit work

Most 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.

LCCIAS provided challenge and advice to the completion of key Information Security Risk Assessments (ISRA). Information and technology (I&T) play a critical role for all services provided by the Council, and it is vital that I&T risks are effectively identified, assessed, managed, and reviewed at the appropriate times.

Key audits of IT hardware and software and cyber security focussed on risk management. Other risk management work was undertaken in consulting audits and developments to the overall control environment.

Overall, recommendations related to improving risk management i.e. not to have to establish it.

The HoIAS is responsible for the overall administration, monitoring, and reporting of the corporate risk management framework. The PSIAS require that this 'potential impairment' to independence and objectivity is declared in the Internal Audit Charter. Regarding counter fraud responsibility, LCCIAS self-assessed against the CIPFA Code of Practice – Managing the Risk of Fraud & Corruption. The exercise was peer reviewed by the Corporate Fraud Manager at Leicester City Council and the outcome was positive (meets the standard), with a score of 93%.

The HoIAS continued to chair a multi-faceted group focussing on property and occupant's risk. The ToR were revised, and an annual report and presentation were provided to the Committee. The HoIAS continues to feed into groups considering the impacts of the 'Prevent' and 'Protect duties' on the Council as part of the Government's CONTEST (counter terrorism strategy).

Financial (and I&T) Controls related internal audit work.

Several assurance audits were undertaken that were predominantly a financial or I&T control theme. LCCIAS continued to input to ORACLE Fusion audits and review Nottingham City Council audits of EMSS systems (see below). A report was provided to the Chair following a member request to review p-card usage. An audit of the escalated financial controls processes is awaiting completion. An Audit Manager attends a Financial Controls Group.

Other independent assurances received in the year.

East Midlands Shared Service (EMSS)

Internal audit activity for EMSS is the responsibility of Nottingham City Council Internal Audit (NCCIA). At its meeting on 20 May 2024, the Corporate Governance Committee was informed that, 'On the basis of audit work undertaken during the 2022-23 financial year, the Head of Internal Audit (HoIA) at Nottingham City Council concludes that a "limited" level of assurance can be given that internal control systems are operating effectively within EMSS and that no significant issues had been discovered. Whilst the direction of travel for the four audits, from 2021/22 to 22/23 has varied, the overall movement over the year is not sufficient to warrant a "moderate" level of assurance. That said, we would fully expect the opinion to improve for 2023/24'. The Committee was also provided with an update on progress with 2023-24 audits. Whilst two were complete, NCCIA expect the work on the remaining two audits to continue until at least the end of the first quarter of 2024/25. This means that 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. Because of resource issues, NCCIA has proposed minimum retesting in 2024-25 but at the time of this report this hadn't been accepted by the EMSS Joint Committee.

Grant Thornton UK LLP's Auditor's Annual Report on the County Council for 2022-23

The Auditor's Annual Report (AAR) is a detailed review of the value for money (VfM) arrangements at the Council. The report was presented to Committee on 26 January 2024 and covered five areas, financial sustainability; governance; improving economy, efficiency, and effectiveness, the opinion on the financial statements and pension fund arrangements. Overall, the auditor's report was positive. They concluded that the Council has a good track record of sound financial management, has strong arrangements in place to manage the financial resilience risks and has a documented governance framework in place that ensures all relevant information is provided and challenged before all major decisions are made. No significant weaknesses were reported. Twelve improvement recommendations were made. The HoIAS is responsible for implementing some recommendations and will be reporting to the Director of Corporate Resources.

Ofsted Focused visit to Leicestershire children's services – May 2023

Inspectors looked at the Council's arrangements for children in care, with a particular focus on:
- Decision-making for children who come into care.
- Permanence planning for children in care, including all permanence options.
- The experiences of disabled children in care.

Inspectors looked at a range of evidence, including case discussions with social workers, managers, parents and children. They also looked at LCC performance management and quality assurance information and children's case records. The headline finding was that since the previous full inspection in September 2019, the quality and impact of social work practice have improved with a range of positive statements on meeting children's needs, social work practice and senior leadership.

HoIAS opinion 2023-24

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.

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.

<u>Caveat</u>

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'.