

ESPO

Leicestershire County Council Internal Audit Service Annual Report 2014-15



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LEICESTERSHIRE COUNTY COUNCIL

INTERNAL AUDIT SERVICE

ANNUAL REPORT 2014-15

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. Definition of Internal Auditing
 - ii. Code of Ethics
 - iii. 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 (Joint Committees included) 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' (Management 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 ESPO's governance, risk and control framework (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 actually 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 ESPO's Control Environment

6. Annex 1 provides detail on how the annual internal audit opinion was formed, defines the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.
7. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following sub-opinions have been drawn:-

Governance

There is a general acknowledgement that there is need for a strong governance framework to achieve the objectives and financial targets contained in the four year Strategy. Otherwise, nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that ESPO's governance arrangements are robust.

Risk management

ESPO has acknowledged the need to implement the GEMS recommendations and there is opportunity to continue improving its risk management framework. Management has agreed to implement all internal audit recommendations which further mitigate risk, therefore reasonable assurance is given that risk is managed

Financial and ICT Control

Reasonable assurance can be given that the operation and management of the core financial systems of ESPO are of a sufficient standard to provide for the proper administration of its financial affairs.

8. None of the sub-opinions were qualified.
9. At the time of writing this report, the outcomes of three audits hadn't been shared with the Director. It is unlikely there will be any significant changes to the sub opinions.

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

10. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion and whether there were any high importance recommendations. Summary outcomes and recommendations have been reported throughout the year in the HoIAS' quarterly reports on progress against the annual internal audit plan.

11. Almost all of the audits undertaken were 'assurance' type defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. Based on the answers provided during the audits and the testing undertaken, the majority of the audits returned a 'substantial assurance' rating, meaning the internal controls in place to reduce exposure to risks currently material to the system's objectives were adequate and were being managed effectively. Although recommendation(s) to bring about improvements were made, they did not have a "high importance" rating signifying a particularly serious control weakness had been identified. The audits of the general ledger reconciliations and ICT general controls are utilised by the External Auditor. All recommendations were accepted.
12. One audit on the project management arrangements for the replacement for the GEMS energy system returned only a 'partial assurance' rating. This was because two "high importance" recommendations were identified due to delays in migrating data and arranging user testing, denoting there was an absence of control and as such achievement of the project's objectives was open to material risk exposure. These were known to, and accepted by the Project Board and the Director of ESPO promptly provided verbal assurances on both progress made and updated plans for implementation. This will be substantiated by the auditor in 2015-16. All recommendations were accepted.
13. Two 'consulting' type audits were undertaken. These can be defined as, '*Advisory and related client service activities, the nature and scope of which are intended to add value and improve an organisation's governance, risk management and control processes*'.
14. During 2014-15, ESPO volunteered to supply both its payroll and creditors data to the 'National Fraud Initiative' a nationwide counter-fraud data-matching exercise.
15. There was only minor 'indirect' reliance placed on other assurance providers during the year, through evaluating the roles and responsibilities of accredited food safety organisations' during the audit of managing supply chain risk.
16. There were no known impairments or restrictions to scope.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

17. The table below shows planned against actual performance both in terms of number of audits and days allocated.

Table 1 : Overall performance against 2014-15 internal audit plan

	<u>Audits</u>	<u>Complete @ 22/5</u>	<u>Incomplete @ 22/5</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Net days</u>
B/fwd from 13-14	5	5	-	10	15	+5
Follow up HI recs	1	1	-	-	-	-
Planned	23	17	3	155	132	-23
Planned not started	-	-	3	-	-	-
Unplanned	-	3	-	-	7	+7
Client management	-	-	-	20	36	+16
Total	29	27	6	185	191	+6

18. Three planned audits were incomplete at 22nd May, applications management, rebates income and servicing authority role, due to a mixture of both untimely scheduling and delays in quality assurance review by LCCIAS. Some resource has already been utilised in 2015-16 completing these audits.
19. Three planned audits were not started: -
- Governance framework – no particular reason but evidence was gained in the HoIAS attendance at committees and various meetings with the Consortium Treasurer and Secretary and the Director of ESPO.
 - Business Strategy (individual projects) was held back pending ESPO developing the governance framework for the four year Strategy.
 - Counter fraud – delayed pending governance work in adopting both the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and the County Council's suite of revised and new anti-fraud policies and strategies.
20. There were three unplanned audits: -
- Attendance management – close a 2013-14 brought forward job
 - National Fraud Initiative submission of data and interpret results
 - Staff purchase scheme – second opinion on the handling of a complaint
21. Client management was significantly higher than planned due to the HoIAS requirement to develop and implement key governance improvements i.e. the Internal Audit Charter for ESPO, the aforementioned CIPFA Code of Practice on Managing the Risk of Fraud and Corruption and the additional impact of attending Management Committee to present them.
22. During the year LCCIAS implemented a new internal audit case management system. This has not been without its problems and data quality has been a significant issue so that monitoring the throughput of workflow and the timeliness of reporting has been difficult. This is a key improvement area for 2015-16. Nevertheless, can provide assurance that there has been rigorous monitoring of due professional care and quality.

A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

23. The HoIAS has conducted a rigorous challenge and self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. However, a few specific areas have been identified where action is needed before the HoIAS can claim to fully conform, and state so in documents and correspondence.
24. A summary analysis of conformance (based on 'yes', 'partly' and 'no') is shown in table 2 below. The key to the columns is: -
- Y = fully conforms
 - Y/P = mostly conforms with some minor areas for improvement
 - P = a balanced result which partly conforms
 - P/N = only some conformance with a real need for improvement
 - N = doesn't conform at all

Table 2 : Summary self-assessment against conformance to PSIAS

Does LCCIAS conform to PSIAS	Y	Y/P	P	P/N	N
1 Definition of Internal Auditing		X			
2 Code of Ethics		X			
3 Attribute Standards (combined)		X			
1000 Purpose, Authority and Responsibility	X				
1100 Independence and Objectivity		X			
1200 Proficiency and Due Professional Care		X			
1300 Quality Assurance and Improvement Programme				X	
4 Performance Standards (combined)			X		
2000 Managing the Internal Audit Activity			X		
2200 Engagement Planning		X			
2300 Performing the Engagement			X		
2400 Communicating Results		X			
2500 Monitoring Progress			X		
2600 Communicating the Acceptance of Risks			X		

25. A detailed list of actions required has been discussed with the Consortium Treasurer. Of these, the need to embed and review progress against the recently implemented Quality Assurance and Improvement Programme (QAIP) is a priority. This is a new requirement for all internal audit providers, and whilst it doesn't mean that quality isn't being managed at LCCIAS, there is a formal requirement to document and prove it.
26. PSIAS 1321 informs that the HoIAS may only state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and Standards and the results of the quality assurance and improvement programme support this statement. For the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.

Any issues the HoIAS judges particularly relevant to the preparation of the annual governance statement

27. The HoIAS has not come across any governance, risk management or internal control issues that would need to be disclosed as key improvement areas or significant governance issues.
28. However, under PSIAS 1322, whilst the results of the HoIAS' self-assessment against conformance to the PSIAS is not considered a significant deviation from the PSIAS, the Consortium Treasurer considers that the reference to continuing actions (including progressing the QAIP) should be recorded as a key improvement area.

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28th May 2015.