

# **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 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 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 Leicestershire County Council'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 opinions 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

Nothing of such significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that the Council's governance arrangements are robust.

### Risk management

Management has agreed to implement audit recommendations, which further mitigates risk. Therefore reasonable assurance is given that risk is managed.

### Financial and ICT Control

Reasonable assurance can be given that the County Council's core financial practices remain strong. However, in 2014-15 there were areas of weakness in the control environment, most noticeably in the Adults & Communities Department. Management reacted quickly by allocating additional resources and capability and there were significant improvements in the latter part of the year. Even so, in respect of this area only limited assurance can be given that internal controls were operating effectively.

8. At the time of writing this report, the outcomes of 13 audits hadn't been shared with management. 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**

9. 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 (HI) recommendations.
10. A high proportion 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 testing undertaken, four were graded 'full' assurance rating with no recommendations. The majority of the audits returned 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. Where there were recommendation(s) to bring about improvements, they did not have a HI rating signifying a particularly serious control weakness had been identified.

11. A minority of audits (ten) were graded 'partial assurance' rating. Of these, eight were because HI recommendations (scored against the Council's corporate risk management criteria) were identified denoting there was an absence of, or a weakness in control, and achievement of the service's objectives was open to material risk exposure. HI recommendations are reported in summary to Corporate Governance Committee (the Committee) and they stay in the Committee's domain until the HoIAS has confirmed (by specific re-testing) that action has been implemented.
12. Whilst the number of HI recommendations has remained relatively stable, the trend of regularly extending out implementation dates is a concern which might indicate increasing pressures and strains on the control environment. Nevertheless, the HoIAS remains satisfied that senior management and Members pay rigorous attention to implementing HI recommendations.
13. A wide range of 'consulting' type audits was 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. LCCIAS audited sixteen of the County's maintained schools and results were encouraging with thirteen being graded above the benchmark required and the other three graded as reaching the standard.
15. LCCIAS conducted four special investigations and provided guidance and advice to management in another. Investigations can take a lot of resource, and extend over a lengthy period of time. The outcomes of significant investigations are reported to the Committee only once they are concluded so as not to jeopardise any formal (disciplinary or Police) investigations.
16. LCCIAS is the Council's co-ordinator for provision of data into the biannual 'National Fraud Initiative' (NFI) a nationwide counter-fraud data-matching exercise. Data including payments to Members and now adults' personal budgets data was despatched in October. Potential 'matches' received in January are being investigated further.
17. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies. Nottingham City Council Internal Audit (NCCIA) provides the internal audit function for East Midlands Shared Services (EMSS). During the year NCCIA conducted (amongst others) audits of payroll and accounts receivable transactions (both limited assurance) and accounts payable transactions (significant assurance). Acknowledging a positive direction of travel, and that some issues do not specifically apply to the County Council, the HoIA nevertheless reported an overall 'limited' assurance opinion on EMSS.
18. A 'potential impairment' to LCCIAS' independence and objectivity (gaining responsibility for the administration of the corporate risk management framework) was declared in the Internal Audit Charter. Annex 2 explains how this was managed. Taking on responsibility for the AGS, risk management and counter fraud has impacted on internal audit resource but has given the HoIAS greater insight into forming his opinion on the control environment.

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

19. 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 @ 29/5</u>	<u>Incomplete @ 29/5</u>	<u>Plan days</u>	<u>Actual days</u>	<u>Net days</u>
B/fwd from 13-14	21	21	-	30	53	+23
Planned	115	89	13	1,120	1,030	-90
Planned not started			12			
Unplanned	5	4	1	150	90	-60
Non audit work	-	-	-	-	106	+106
Inherit new duties	-	-	-	-	141	+141
Client management	-	-	-	200	213	+13
<b>Total</b>	<b>141</b>	<b>115</b>	<b>26</b>	<b>1,500</b>	<b>1,633</b>	<b>+133</b>

20. Thirteen planned audits were incomplete at 29 May. Some resource has already been utilised in 2015-16 in completing these audits.
21. Twelve planned audits were not started for reasons including: control framework still being developed; not ready for audit; assurance being given by others and shortage of resource caused by the impact of inherited duties. Some of these audits will roll forward into the 2015-16 audit plans.
22. Client management was higher than planned mostly due to the impact on the HoIAS caused by delivering key governance improvements i.e. the Internal Audit Charter and other PSIAs, and the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
23. By 29<sup>th</sup> May, just over 81% of planned jobs were completed (with thirteen to follow) against a target of 90%. Slippage was mostly due to inheriting new duties and using internal audit resource for non-audit tasks to assist with payables systems problems.
24. Whilst returns of satisfaction questionnaires were low, those being audited continue to rate the service they received and the value added as very satisfied.
25. Budget target was exceeded with a surplus generated from additional trading with third parties.
26. 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, the HoIAS can provide assurance that there has been rigorous monitoring of due professional care and quality. This is achieved through quality checks and oversight undertaken throughout the

audit engagement ensuring that processes and practice are consistently applied and working effectively.

27. **A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)**
28. 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 conform to the PSIAS sufficiently. 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.
29. 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		

30. A detailed list of actions required has been discussed with the CFO. 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.
31. 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**

32. 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.
33. 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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31<sup>st</sup> May 2015.