

# Leicestershire County Council Internal Audit Service Annual Report 2015-16



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**LEICESTERSHIRE COUNTY COUNCIL**  
**INTERNAL AUDIT SERVICE**  
**ANNUAL REPORT 2015-16**

**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 2015-16 there were areas of weakness in the control environment, most noticeably in Adults & Communities (A&C) Department. Whilst the Director of Finance has taken action to ensure significant improvements, in respect of A&C only limited assurance can be given that internal controls operated effectively.

8. At the time of writing this report, the outcomes of 15 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*'. 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. Two audits were graded 'partial assurance' rating. This was because HI recommendations (scored against the 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 there were only a small number of HI recommendations and the HoIAS is satisfied that senior management and Members pay rigorous attention to implementing them, he will actively monitor and report slippage in implementation which might indicate increasing pressures and strains on the control environment.
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 thirty two of the County's maintained schools and results were very encouraging with all of them being graded at substantial assurance and one attaining full assurance.
15. LCCIAS conducted two special investigations and provided guidance and advice to management in four others. 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. Activity on investigations is produced annually to meet the requirements of the Local Government Transparency Code and benchmark.
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. During 2015-16 significant progress was made with designing and implementing counter fraud strategies and policies and undertaking counter fraud based reviews. Furthermore, LCCIAS assisted with two DCLG funded projects for counter fraud initiatives led by Leicester City Council.
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 HR functions, accounts receivable and accounts payable transactions. The Head of Internal Audit for NCCIA concluded that a "significant" level of assurance can be given that internal control systems were operating effectively within EMSS.

18. A 'potential impairment' to LCCIAS' independence and objectivity (responsibility for the corporate risk management framework) is declared in the Internal Audit Charter. The HoIAS is also responsible for the compilation of the Annual Governance Statement. Managing these functions gives the HoIAS greater insight into forming an opinion on the adequacy and effectiveness of the control environment.

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

19. The tables below show performance both in terms of number of audits and days allocated.

**Table 1 : Overall performance against 2015-16 internal audit plan**

	<b><u>Audits</u></b>	<b><u>Complete @ 30/4</u></b>	<b><u>Incomplete @ 30/4</u></b>
B/fwd from 14-15	15	13	2
Planned	118	81	7
Planned not started	-30	-	-
Unplanned	34	28	6
<b>Total</b>	<b>137</b>	<b>122</b>	<b>15</b>
Previous year (at 29 May)	141	115	26

20. Internal audit plans are increasingly short term, are statements of intent rather than guaranteed coverage and need to be flexible to adapt to changes in risk and priorities. This was borne out during 2015-16 when 30 planned audits were not started for reasons including; the control framework was still being developed; not ready for audit and reviews were being undertaken by others. Some of these audits will roll forward into the 2016-17 audit plans. The planned audits not started were replaced by 34 unplanned audits, most at the request of department management. 15 audits were incomplete at 30 April which was a considerable improvement on the previous year. Some resource has already been utilised in 2016-17 in completing these audits.
21. By 30<sup>th</sup> April, just over 89% of all jobs were completed to at least draft report (with 15 to follow) against a target of 90%.
22. Total 'productive' days spent on work relating to the County Council was: -

<b><u>Function</u></b>	<b><u>15/16 Days</u></b>	<b><u>Previous</u></b>	<b><u>+/-</u></b>
Audits	990	1,120	-130
Other functions (risk, AGS, counter fraud)	164	141	23
Corporate duties	188	213	-25
Assist other functions (financial systems issues)	114	106	8
<b>Total</b>	<b>1,456</b>	<b>1,580</b>	<b>-124</b>

23. Returns of satisfaction questionnaires remain low. Nevertheless, those being audited continue to rate service received and value added as '*very satisfied*'.
24. There was a small budget deficit due to being unable to generate sufficient income from trading surplus capacity with third parties. Nevertheless, the use of Internal Audit Service resource to assist other functions in improving financial systems issues should be taken into account.

25. The case management system still has some problems and data quality remains an issue so that monitoring the throughput of workflow and the timeliness of reporting has been difficult. This remains a key improvement area for 2016-17 and will be backed up by expectations of management to assist the audit cycle. Nevertheless, the HoIAS 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)**

26. The HoIAS undertook a further 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. A detailed list of actions required has been discussed with the CFO.
27. A summary analysis of conformance (based on 'yes', 'partly' and 'no') is shown in table 2 below. The key to the columns is: -
- Yes = fully conforms
  - Yes/Partly = mostly conforms but scope for continuous improvement
  - Partly/No = only some conformance with a real need for improvement
  - No = doesn't conform at all

**Table 2 : Summary self-assessment against conformance to PSIAS**

<b>Does LCCIAS conform to PSIAS</b>	<b>Y</b>	<b>Y/P</b>	<b>P/N</b>	<b>N</b>
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		

28. An improvement during 2015-16 has been the development and implementation of a Quality Assurance and Improvement Programme (QAIP) which sets out the governance arrangements for LCCIAS; explains roles and responsibilities of management and staff; defines expectations and outlines quality measures. Work to embed and review progress against the QAIP remains a priority.
29. PSIAS Standard 1321, informs that the HoIAS may only state that the internal audit activity fully 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. Whilst there has been further movement towards full conformance, for the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.
30. PSIAS Standard 1322, requires the HoIAS to confirm that (based on the results of the self-assessment) there were not any significant deviations from the PSIAS.

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

31. The HoIAS has responsibility for compiling the AGS. As part of the process, a 'governance group' comprising the Director of Finance, Monitoring Officer, Head of Democratic Services and the HoIAS review and agree any significant governance issues that should be reported in the AGS. For the year 2015-16 one issue was considered significant.
32. A Supreme Court Case Ruling during 2015-16 led to a large increase in service users entitled to assessment and review against the 'Deprivation of Liberty Standards'. The risk to the Council is that legal requirements would not be met within the timescales. Action has been taken to significantly increase budgets for 2016/17 and later years and also provide additional resource in year to reduce the current waiting list.

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