

ESPO

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 (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 reached:-

Governance

Nothing of 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

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 two 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. The majority 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, one returned 'full assurance' rating (with no recommendations). The others each 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 trading accounts, general ledger reconciliations and ICT general controls are utilised by the External Auditor. All recommendations were accepted.
12. It was confirmed that the "high importance" recommendations relating to the project management arrangements for the replacement for the GEMS energy system were implemented.
13. Six audits returning 'no opinion' are 'consulting' type audits. 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 2015-16, the outputs from ESPO voluntarily submitting its payroll and creditors data into the 'National Fraud Initiative' (a nationwide counter-fraud data-matching exercise) were examined. No issues arose.
15. Other than the External Auditor, there was no reliance on other assurance providers during the year.
16. There were no known impairments or restrictions to internal audit's 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 2015-16 internal audit plan

| | <u>Audits</u> | <u>Complete @ 20/5</u> | <u>Incomplete @ 20/5</u> | <u>Plan days</u> | <u>Actual days</u> | <u>Net days</u> |
|---------------------|---------------|------------------------|--------------------------|------------------|--------------------|-----------------|
| B/fwd from 14-15 | 11 | 11 | - | 15 | 34 | +19 |
| Follow up HI recs | 1 | 1 | - | 2 | 4 | +2 |
| Planned | 23 | 18 | 2 | 148 | 132 | -16 |
| Planned not started | - | - | 3 | | | |
| Unplanned | - | - | - | - | - | - |
| Client management | - | - | - | 20 | 25 | +5 |
| Total | 35 | 30 | 5 | 185 | 195 | +10 |

18. Two planned audits were incomplete at 20th May, management information and rebates income. Some resource has already been utilised in 2016-17 completing these audits.
19. Three planned audits were not started: -
- Control environment - Postponed due to more time needed on other audits
 - Warehousing - Cancelled due to a strategic decision taken to manage 'peak' demand in-house.
 - Vehicle & fleet operating costs - Postponed because the new fleet & associated telematics reporting only went live in February
20. There were no unplanned audits.
21. The internal audit case management system still brings problems with data quality so that monitoring the throughput of workflow and the timeliness of reporting has been difficult. This remains a key improvement area for 2016-17. 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)

22. 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.
23. 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

| Does LCCIAS conform to PSIAS | Y | Y/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 | | |

24. An improvement during 2015-16 has been the 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.

25. 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.
26. 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)

27. A 'governance group' comprising the Director and Assistant Director (Finance) of ESPO; the Consortium Treasurer and Secretary and the HoIAS reviewed the draft AGS and agreed there were not any issues relevant to its preparation.

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LCCIAS

22nd May 2016.

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