

Leicestershire County Council Internal Audit Service Annual Report 2016-17

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LEICESTERSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2016-17

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised from April 2016. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. The Mission of Internal Audit (**new from April 2016**)
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing (**new from April 2016**)
 - iv. Code of Ethics
 - v. 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 types of audits undertaken, 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

There has been transparent reporting of the HTLAH situation in the AGS. Nothing else of 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 shown good engagement around risk and agreed to implement audit recommendations, which further mitigates risk. Therefore reasonable assurance is given that risk is managed.

Financial and ICT Control

Whilst recognising there have been some control failings during the year, reasonable assurance can be given that the Council's core financial and I&T controls remain strong.

8. At the time of writing this report, the outcomes of 10 audits hadn't been agreed 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. Four audits were graded 'partial assurance' rating. In three of them, 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. The other 'partial' was given because there were a number of recommendations albeit none were graded HI.
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 fourteen of the County's maintained schools and results were very encouraging with all of them being graded at substantial assurance.
15. LCCIAS either undertook or assisted (provided guidance and advice to management) with thirteen investigations. In 2016-17 investigations have used a lot of resource and extended 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.
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. Outputs from the latest round of data matching were received in January. Some matches were confirmed which resulted in recouping overpayments and improvements to internal controls being implemented. Other potential matches continue to be explored. Additionally, LCCIAS continued to provide information for the 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 2016-17 internal audit plan

	Audits	Complete @ 12/5	Incomplete @ 12/5
Assurance audits	55	45	10
Consulting audits	35	29	Ongoing = 6
Investigations	13	13	0
Other control environment	7	4	Ongoing = 3
Total	110	91	19
Previous year (at 30/4/16)	137	122	15

20. Internal audit plans are increasingly short term statements of intent rather than guaranteed coverage and need to be flexible and retain contingency to adapt to changes in risk and priorities. The 2016-17 plan contained a number of potential areas for audit that for a variety of reasons didn't come to fruition but were replaced (especially by work on investigations). Only the 10 assurance audits were factually 'incomplete' at 12 May 2017. Some resource has already been utilised in 2017-18 in completing these audits.
21. By 12th May, just over 81% of all jobs were complete, with 10 (19%) to follow be concluded, against a target of 90%.
22. Total 'productive' days spent on work relating to the County Council was down on the year before. This was primarily due to not fulfilling two vacancies (0.8 from November) and (0.65 from January) and a period of maternity leave (1.0 for almost 9 months). Additionally the HoIAS took on oversight of the Council's insurance function from July, which whilst adding to the compendium of knowledge of the Council's overall risk profile, did affect undertaking some planned high level governance audits. The HoIAS also spent a considerable amount of originally 'unplanned' time on planning for undertaking Leicester City Council's internal audit function, which was due to be delegated from 1st April 2017. Results were: -

<u>Function</u>	<u>16/17 days</u>	<u>Previous</u>	<u>+/-</u>
Audits (assurance, consulting, investigations)	594	990	-396
Other functions (risk, AGS, counter fraud)	191	164	27
Corporate duties	159	188	-29
Assist other functions	235	114	121
Total	1,179	1,456	-277

23. Employee savings earned from the aforementioned vacancies and maternity leave and surplus income generated from trading, led to an overall budget surplus of just over £60,000. Trading with external clients especially Leicestershire (and now Leicester City) academies enables the retention of a reasonable sized staff group which provides business resilience.
24. Returns of satisfaction questionnaires remain low. Nevertheless, those being audited continue to rate service received and value added as '*very satisfied*'.
25. Data quality within the case management system 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 2017-18. 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. For 2016-17, the HoIAS only undertook a light touch self-assessment of LCCIAS's conformance to the PSIAS. This is because the Service has to undergo an independent external quality assessment in the latter part of 2017-18. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. However, a few specific areas have been identified where development is required before the HoIAS can claim to fully conform, and state so in documents and correspondence.
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 development
 - Partly/No = only some conformance with a need for development
 - 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		

28. The Quality Assurance and Improvement Programme (QAIP) 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 overseeing the compilation of the AGS. As part of the process, a 'governance group' comprising the Director of Law & Governance, the Chief Financial Officer, the Head of Democratic Services and the Assistant Chief Executive and the HoIAS review and agree any significant governance issues that should be reported in the AGS.
32. For the year 2016-17, matters arising at the implementation stage of the Help to Live at Home (HTLAH) programme were considered significant. In line with the requirements of the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016), the HoIAS considers that the matters and actions arising have been adequately reported in the AGS and reflected in the HoIAS' sub-opinion on governance.

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15th May 2017.

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