

Leicestershire County Council Internal Audit Service Annual Report 2017-18

**Neil Jones CPFA, Head of Internal Audit Service,
Leicestershire County Council**

12th April 2018

LEICESTERSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2017-18

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised from April 2017. 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
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing
 - 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, explains the 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

Nothing 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

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 5 audits hadn't been concluded 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 and other work undertaken by LCCIAS during the year and where appropriate contains the individual audit opinion.
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. On the occasions when there were recommendation(s) to bring about improvements, they did not have a high importance (HI) rating signifying a particularly serious control weakness had been identified.
11. Three 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 27 of the County's maintained schools and results were very encouraging with all but one of them being graded at substantial assurance.
15. LCCIAS either undertook or assisted (provided guidance and advice to management) with 13 new investigations. In 2017-18 investigations have continued to use a lot of resource and extended over a lengthy period of time. The outcomes of 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 last round of data matching continued 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 Charter will need to be reviewed and revised in 2018-19 in light of PSIAS guidance on the role of the internal audit function in counter fraud activity. The HoIAS is also responsible for the compilation of the Annual Governance Statement and oversight management of the insurance function. 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 2017-18 internal audit plan

	Audits	Complete @ 6/4	Incomplete @ 6/4
Assurance audits	57	51	6
Consulting audits	33	19	Ongoing = 14
Investigations - new	13	6	7
Other control environment	17	8	Ongoing = 9
Total	120	84	36
Previous year (at 12/5/17)	110	91	19

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 2017-18 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 6 assurance audits were 'incomplete' at 6 April 2018. Some resource has already been utilised in 2018-19 in completing these audits.
21. By 6th April, for assurance and consulting audits and investigations (which by their nature can have a very long tail) concluded were almost 74%% 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 full year vacancies totalling 1.5 fte
 - the overall impact of receiving Leicester City Council's delegation of its internal audit function to the County Council including forming agreements and schedules, planning IT arrangements and inducting staff that TUPE transferred in
 - commencing a service review of the merged team
 - the overall impact of the external/peer review
 - needing to undertake audits for new clients (City) with a disproportionate staff resource

Results were: -

<u>Function</u>	<u>17-18 days</u>	<u>Previous</u>	<u>+/-</u>
Audits (assurance, consulting, investigations)	746	694	52
Other functions (risk, AGS, counter fraud, ins'ce)	197	208	-11
Corporate duties	18	11	7
Assist other functions	5	239	-234
Total	966	1,152	-186

23. The HoIAS considers this to be very low considering the size of the organisation and its risks. Recruitment to vacancies is vital. However, days on audit work and other assurance functions is similar to 2017-18, so hasn't adversely affected reaching an overall opinion on the control environment.

24. Employee savings earned from the aforementioned vacancies, surplus income generated from trading and contributions from Leicester City Council, led to a considerable budget surplus (tbc). Trading with external clients especially Leicestershire (and now Leicester City) academies enables the retention of a reasonable sized staff group which provides resilience.
25. Returns of satisfaction questionnaires remain low. Nevertheless, those being audited continue to rate service received and value added as '*very satisfied*'.
26. The merged service is currently using two unique case management systems. A single platform is 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)

27. In line with requirements to receive an independent external quality assessment once every 5 years, in March 2018 the HoIAS commissioned Veritau Limited to undertake an independent validation of its self-assessment of conformance against the PSIAS (in effect a peer review). The HoIAS' summarised self-assessment is contained at **Annex 3**.
28. Veritau's report (see elsewhere on agenda) has concluded that '*It is our overall opinion that Leicestershire County Council generally conforms to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Standards*'. Veritau explains that 'generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. The review team found a number of areas of good practice as well as a number of areas which merit further attention which are accepted by the HoIAS and an action plan will be drawn up.
29. As part of the peer review process, the HoIAS revised and developed LCCIAS' 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. Actions to improve are listed. The QAIP is contained at **Annex 4** and the action plan on page 10 has been reviewed and approved by the Chief Financial Officer (Director of Corporate Resources).
30. In line with PSIAS Standard 1321, the HoIAS considers that the Council's internal audit activity fully conforms with the International Standards for the Professional Practice of Internal Auditing because it has achieved 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.
31. 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)

32. 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 reviews and agree any significant governance issues that should be reported in the AGS.
33. For the year 2017-18, there were no significant matters to add to the AGS.

Neil Jones CPFA
Head of Internal Audit & Assurance Service
LCCIAS

12th April 2018.

This page is intentionally left blank