

## **ESPO**

# **Leicestershire County Council Internal Audit Service Annual Report 2019-20**

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**8<sup>th</sup> May 2020**

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**LEICESTERSHIRE COUNTY COUNCIL INTERNAL AUDIT SERVICE**  
**ANNUAL REPORT 2019-20**

**Background**

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised in 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 (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' (the Finance & Audit Subcommittee) timed to support the Annual Governance Statement (AGS). Management Committee approves the annual report.
  
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 types of audits undertaken 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:-
  - a. Governance related audits  
 Nothing of significance, adverse nature or character has come to the attention of the HoIAS. As such **reasonable assurance** is given that ESPO's governance arrangements are robust.
  - b. Risk management related audits  
 Management has displayed a robust attitude to risk and accepted internal audit recommendations which further mitigate risk; therefore **reasonable assurance** is given that risk is managed
  - c. Financial and ICT Control related audits  
 Notwithstanding the two incomplete audits, **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. Due to the fast escalating impact of the coronavirus, starting in March ESPO management very quickly designed and installed alternative ways of working with its financial and ICT systems which could have internal control and risk implications for the overall control environment. LCCIAS will review the arrangements to ensure the alternative methods retain robust controls.

**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 recommendations. Summary outcomes and recommendations have been reported throughout the year in the HoIAS' quarterly reports on progress against the annual internal audit plan.
10. Nine 'assurance' type (see definitions) audits were undertaken. Based on the answers provided during the audits and the testing undertaken, they 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 were not significant. Whilst four remained in draft report form at the time of this statement, I do not envisage management will dispute their likely substantial assurance opinions
11. A further four audits remain work in progress at the time of this statement, two of which will be substantial assurance. The remaining two were not able to be concluded due to the impact of covid-19 on workplaces.
12. Five audits returning 'no opinion' were 'consulting' type audits (see definitions).
13. Whilst reaction from management has been positive throughout, we do not yet have the responses to customer satisfaction questionnaires issued. This will be rectified in time for the Management Committee meeting on 24 June 2020.
14. During 2019-20, 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. Work concluded that no instances of fraudulent activity were noted from the work undertaken and investigations made.
15. Other than the External Auditor, there was no reliance on other assurance providers during the year.
16. Other than since the 23 March 2020 when the Government enforced lockdown because of covid-19, 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 (completed to draft issued stage) and days allocated.

**Table 1 : Overall performance against 2019-20 internal audit plan**

	<u>Audits</u>	<u>Complete @ 8/5</u>	<u>Incomplete @ 8/5</u>	<u>Cancelled</u>	<u>Days</u>
Close 18-19	3	3	-	-	15
Follow up HI recs	-	-	-	-	-
Planned	17	12	4	1	130
Unplanned	-			-	
Client management	-	-	-	-	25
<b>Total</b>	<b>20</b>	<b>12</b>	<b>4</b>	<b>1</b>	<b>170</b>

18. Some resource has already been utilised in 2020-21 completing 2019-20 audits.

**A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)**

19. Because of the unplanned impact of managing responses to the covid-19 crisis, the HoIAS has not been able to undertake the annual self-assessment of LCCIAS's conformance to the PSIAS nor reviewed the service's Quality Assurance and Improvement Programme (QAIP) and updated it for further actions required.
20. The HoIAS does not envisage any material changes to either, but the review will take place in time to report the outcomes to Management Committee on 24 June 2020.

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

21. The HoIAS considers ESPO's actions and future plans and potential impacts caused by the ongoing coronavirus pandemic will need to be considered during the preparation of the AGS.
22. A 'governance group' comprising the Director of ESPO, Assistant Director (Finance) of ESPO; the Consortium Treasurer, the Consortium Secretary, the Council's Democratic Services Officer and the HoIAS will review the draft AGS before it is presented to Management Committee in September.

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LCCIAS

8<sup>th</sup> May 2020.

