

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

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

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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 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 internal control frameworks (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, the professional judgement of the HoIAS in evaluating other related activities including the Council's plans and responses for the earliest parts of the coronavirus, the following opinion has been reached: -

Prior to the onset of the virus, the Council's control environment was in a steady state. The build-up and immediate impact of the coronavirus was significant, of adverse nature and unique in character. However, no significant governance, risk management internal control failings have come to the HoIAS' attention therefore reasonable assurance is given that the Council's control environment overall has remained adequate and effective.

8. At the time of writing this report, the outcomes of 6 audits hadn't been concluded with management. It is unlikely there will be any change to the opinion.

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*'. Most 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. Of the completed audits, 5 were graded 'partial assurance' rating. This was because either high importance (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; or whilst there were not any individual HI recommendations, the combined sum of the other recommendations was enough to grade the audit only partial assurance. HI recommendations/partial assurance ratings 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 13 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 10 prospective investigations of which 6 were completed. 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. 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 and governance. 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.
17. 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 2020-21 considering PSIAS guidance on the role of the internal audit function in counter fraud activity.
18. The HoIAS is also responsible for the compilation of the Annual Governance Statement and oversight of the insurance function and chairs a group specifically engaged in the Council's property and occupants risk. 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: Assignments completed/ongoing at 30 April 2020

| | <u>Complete @ 30/4</u> | <u>Ongoing @ 30/4</u> |
|----------------------------|-------------------------------|------------------------------|
| Assurance audits | 44 | 6 |
| Consulting assignments | 19 | 9 |
| Investigations - concluded | 6 | 4 |
| Other control environment | 5 | 1 |
| Assist other functions | 12 | 2 |
| Total | 86 | 22 |

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 2019-20 plan contained several potential areas for audit that for a variety of reasons didn't come to fruition but were replaced. Only 6 assurance audits were 'ongoing' at 30 April 2020. Some resource has already been utilised in 2020-21 in completing these audits.
21. Total combined assurance 'productive' days spent on work specifically relating to the County Council were slightly up on the year before. This was primarily due to utilising 3 x trainees and 2 x agency for various parts of the year

Table 2: Resources used 1/4 2019 to 30/4/2020 (compares to previous)

| <u>Function</u> | <u>Previous</u> | <u>2019-20 days</u> | <u>+/-</u> |
|---|------------------------|----------------------------|-------------------|
| 1. Audits (assurance, consulting, investigations) | 813 | 860 | 47 |
| 2. Other functions (risk, AGS, insurance) | 177 | 187 | 10 |
| 3. Corporate duties | 79 | 104 | 25 |
| 4. Assist other functions - redeployment | 1 | 22 | 21 |
| Total | 1,070 | 1,173 | 103 |

22. The days provided across functions 1-3 was slightly over 8% above that in 2018-19 and has allowed sufficient breadth of coverage to enable an overall positive opinion to be given on the control environment. Nevertheless, the HoIAS still considers this to be at the lower end of the scale considering the size of the organisation, its risks and the unknown continuing impact of the coronavirus. Conclusion of the service review and recruitment to vacancies remains vital but alongside any re-imagining of service delivery.
23. Employee savings from the aforementioned vacancies and long-term absences which weren't filled through more agency spend as originally anticipated, led to a budget underspend (£50k).
24. Returns of audit satisfaction questionnaires remain low. Nevertheless, those being audited continue to rate service received and value added as 'very satisfied'.

25. The Service is still using two unique case management systems. However, one company has acquired the other and they are developing a single platform ready for launch in early 2020. Nevertheless, the HoIAS can continue to provide assurance that there has been rigorous monitoring of due professional care and quality.
26. The Service review was re-started with assistance from the Transformation Unit. However, significant changes will be required to determine a 'new normal' and so the scope of the review will be revisited to ensure it fully incorporate becoming more agile by using available technologies and pushing ahead on the use of a data analytics tools.

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

27. The HoIAS has undertaken a short desk-top self-assessment of LCCIAS's conformance to the PSIAS see **Annex 3**. In line with PSIAS Standard 1321, the HoIAS considers that the County Council's internal audit activity generally conforms with the International Standards for the Professional Practice of Internal Auditing.
28. PSIAS Standard 1322 requires the HoIAS to confirm that whether there were any significant deviations from the PSIAS. Whilst not 'significant' in terms of overall resource utilised, the impact of the coronavirus meant 6 audit staff were redeployed to operational services. Any future audits will need to be managed. Similarly, some audits were postponed, and outcomes delayed but this didn't significantly affect the scope
29. The HoIAS has not reviewed the service's Quality Assurance and Improvement Programme (QAIP) since it will need to be evaluated in terms of any re-direction during recovery planning for the Service.

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

30. 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.
31. The redeployment of internal audit staff will be recorded in the 2019-20 AGS.

Neil Jones CPFA
 Head of Internal Audit & Assurance Service
 LCCIAS

30th May 2020.